

# **FINANCIAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2022**

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**WEDNESDAY, MAY 19, 2021**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 2:01 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Christopher Van Hollen (Chairman) presiding.

Present: Senators Van Hollen and Hyde-Smith.

## **INTERNAL REVENUE SERVICE**

### **OPENING STATEMENT OF SENATOR CHRISTOPHER VAN HOLLEN**

Senator VAN HOLLEN. Good afternoon everybody. This hearing will come to order. And I will be brief because there's lots of material to cover today. First, I want to welcome Senator Hyde-Smith. This is our first hearing as Chairman and Ranking Member of the Financial Services and General Government Appropriations Subcommittee. And I'm looking forward to working with you, Senator, as we move forward on the appropriations process this year. I also want to thank our staff on both sides of the aisle.

I want to welcome our witnesses. IRS Commissioner Charles Rettig, Former IRS Commissioner Charles Rossotti, and IRS Tax Advocate Erin Collins. Thank you all for making the time to be here in person today.

And I want to give a special shoutout to Commissioner Rettig for your recent efforts at the helm of IRS to ensure a quick and efficient roll-out of the expanded child tax credit benefits so that we're secured in the American Rescue Plan. Funds will start reaching families as soon as July 15. And that support will help cut child poverty nearly in half this year.

Today's hearing will focus on two big issues at the IRS. The first is narrowing America's tax gap, identifying the components of that gap, and working to close it. The second is improving taxpayer services. And I believe that these two issues are deeply linked.

Our tax system runs on the assumption that Americans voluntarily comply with the Nation's tax laws. Each year, millions of people pay what they owe, fill out their tax forms, and send them in to the IRS honestly and on time. And they trust that others do the same.

But we know that while most people pay what they're required to under the law, some do not. There is anywhere from \$500 billion to \$100 trillion in taxes each year that are owed and not paid. That is a staggering figure. This is commonly called the tax gap, but that gap is really a gorge.

The yearly amount of tax dollars owed is more than the Federal Government spent on Medicaid in 2020. And that is an insurance program that helps more than 72 million Americans. These are billions of dollars that are legally due under current tax law, and which could go toward funding crucial policies that support everyday Americans.

The first tool in our arsenal to help narrow this gap is taxpayer services, which help people know what they owe and when they owe it. And taxpayer services help take the headache out of tax season at least as much as possible.

Better taxpayer services are also essential for the IRS to deliver vital programs for American families, such as the economic impact payments that have gone out during the pandemic, and the child tax credit payments that will go out starting in July.

The second tool is to invest in enforcement capabilities. We need to crack down on those who evade their tax responsibilities, those who refuse to do their part to help our country. This does not mean targeting working families who are already paying their taxes in withholding from each and every paycheck.

Closing the tax gap and ensuring the IRS has the resources they need for taxpayer services and enforcement must be top priorities. And this hearing will help us better understand how to tackle each of these pressing challenges.

With that, I want to end where I began by thanking all of you for coming here today to share your perspectives. And before we begin, I would like to turn to Senator Hyde-Smith for her opening statement. Senator.

#### OPENING STATEMENT OF SENATOR CINDY HYDE-SMITH

Senator HYDE-SMITH. Thank you very much Mr. Chairman for that warm welcome. And it's an honor to be here today as Ranking Member, I am certainly grateful for this opportunity on this important subcommittee, and looking forward to crafting very responsible legislation for fiscal year 2022.

I also want to welcome the IRS Commissioner to our hearing today. We look forward to your testimony this afternoon and to the testimony of our second panel as well.

While there are significant disagreements in Congress on what the proper level of taxing and spending should be, there should be no doubt that taxes legally owed to the government should be paid. The so-called tax gap is a serious issue, and I appreciate the Chairman calling this hearing today to draw attention to this topic.

In recent years, we have heard wildly varying estimates from the IRS on what the tax gap actually is. And I just look forward to hearing from the Commissioner today about the issue and his proposed solutions. I also look forward to hearing from the witnesses on our second panel today about their perspectives on both the tax gap and how the IRS can improve the quality of services that it provides to the taxpayers. Today, I expect one of the recurring

things from our witnesses to be the need of more resources at the IRS.

While more money always seems to be the proposed solution in Washington, DC, I remain concerned that funding increases marketed as the solution to the tax gap will instead be diverted away from enforcement and squandered on IT projects that have a checkered history of success.

Since 2013, the IRS has transferred \$1 billion away from its tax enforcement account to its operations support account to address its information technology and systems. Over the past 14 months, the IRS has received more than \$3 billion in supplemental funding, including \$2 billion for its systems and technology. Unfortunately, the IRS is still planning to divert more than \$200 million away from the enforcement this year, to yet again address IT cost.

Congress originally designated these funds to beef up the IRS enforcement ranks. Unfortunately, we have seen the IRS repeatedly call attention to the tax gap, and then divert the funds somewhere else. I hope the Commissioner will reconsider this practice and instead today focus on exploring common ground on how to increase compliance with our tax laws and to increase services to the taxpayers.

Mr. Commissioner, I know you have your hands full with responding to additional responsibilities placed on the agency and adapting to COVID-19. And I just want to thank you for your service. And I look very forward to your testimony today. Thank you, Mr. Chairman.

Senator VAN HOLLEN. Thank you, Senator. Our first witness today is IRS Commissioner Charles P. Rettig. Prior to his confirmation in September 2018, Commissioner Rettig worked in private practice for 36 years, representing thousands of individuals and businesses before the IRS, the Department of Justice tax division, Federal and State courts, and State taxing authorities.

He received his B.A. in Economics from the University of California at Los Angeles, as well as a J.D from Pepperdine University, and an L.L.M. in taxation from New York University.

Commissioner, thanks again for being here. You can now begin your testimony.

**STATEMENT OF CHARLES RETTIG, COMMISSIONER, INTERNAL REVENUE SERVICE**

Mr. RETTIG. Thank you very much, Chairman Van Hollen, Ranking Member Hyde-Smith, and Members of the Subcommittee. Thank you for the opportunity to discuss our efforts to help taxpayers, especially during the COVID-19 pandemic, and our ongoing efforts to address the tax gap.

Before I begin, I want to thank Congress for recognizing the efforts of our employees during the pandemic, and on working on behalf of the country. Our employees have worked extremely hard for the last 14 to 16 months to bring about unprecedented relief to vulnerable taxpayers and to taxpayers across the system.

We're very proud and privileged to have had that opportunity. And we're exceptionally proud of the recognition that we've received from Members of Congress individually and collectively. We

are proud to serve our country. We want to provide meaningful services of a nature and quality that every American deserves.

The problems facing tax administration today are not new. It is not unusual. I'm sitting here with Commissioner Rossotti, and a lot of the issues that I have faced during my term so far, he faced during his term and Commissioners prior to Commissioner Rossotti faced during their term.

It will take time to overcome the challenges of the past. The agency will continue to struggle to replace more than 50,000 workers lost through attrition over the next 6 years to expand our workforce, to support implementation of our multi-year integrated modernization plan, to implement the provisions of the Taxpayer First Act, and to continue enhancing both meaningful service and compliance efforts.

Like all Federal agencies, the IRS is best suited to provide services Americans deserve and appropriately enforce the tax laws in support of compliant taxpayers when it receives the resources that it needs to do so.

At a time when the IRS has faced consequential resource challenges, it has been called upon to take on new responsibilities. Our response to the unprecedented COVID challenges illustrates the importance of every American to the IRS and the importance of the IRS to every American.

During the pandemic, in a bit more than 14 months, IRS and Treasury employees delivered 472 million payments for EIP 1, 2, and 3, totaling more than \$807 billion, plus 214 million individual refunds totaling over \$573 billion. The total of those EIP payments and the refunds to date—because it includes filing season 2020 and 2021—is more than \$1.38 trillion during the pandemic from an agency that I shut down in March of 2020.

We sent our employees home. We closed about 500 facilities, had to flip into a teleworking virtual environment. I'm extremely proud of our employees, the efforts that they went through to be able to accomplish what we have accomplished to date. I respect the fact that Members of Congress, the Chair, and Ranking Member have echoed those compliments already.

Turning to the 2021 filing season, this season has gone smoothly. At the peak, we were receiving 335 submissions per second. Yesterday, which was the conclusion of filing season 2021, we received a record 15.36 million returns. Through May 14, the IRS has processed more than 124 million individual returns, including almost 89 million refunds, totaling \$253 billion. We have also received, in total, more than 260 million Federal, State, and business returns and are processing those. And we're very proud of the volume and our ability to handle this during the pandemic.

With respect to the unemployment insurance and the change in the law, which made the first \$10,200 excludable for certain taxpayers, we adjusted the first payments for the people who filed before the law changed. The first refunds went out last week. Refunds will continue to go out through the summer, and the vast majority of those folks will have to take no action.

As to the Advanced Child Tax Credit, we are on track to issue the first payments on July 15. We have completed over 50 percent of the build of the two separate tools, which will allow people to

go online to check the status and to provide us with filing information. Individuals will also be able to interact with us in person and on the phone, with respect to the 6-month advanced tax credit provisions.

We did not have, nor did most others, a pandemic playbook. We worked hard with limited resources in a lot of arenas. We made some mistakes; we tried our best. We think that looking back, folks will be very proud of the role of the Internal Revenue Service during the past year.

As I turn it back to you, we should not overlook the fact that about 96 percent of the gross revenue of the United States of America flows through the Internal Revenue Service. Our Agency is important to the country and to the people of the country, and the fact is that we're reflective of the people of the country. I'm very proud of the diverse nature of our workforce and the communities that we have presence in. We are on the ground in these communities.

We are available for Congress and others to continue serving the people of this country. We're very proud of our role. With that, Mr. Chairman, Ranking Member, I turn it back to you, and am available for questions.

[The statement follows:]

#### PREPARED STATEMENT OF HON. CHARLES P. RETTIG

##### INTRODUCTION

Chairman Van Hollen, Ranking Member Hyde-Smith and Members of the subcommittee, thank you for the opportunity to update you on IRS operations, especially the work we have been doing to help taxpayers during the COVID-19 pandemic.

I am pleased to report the 2021 filing season has gone smoothly in terms of tax return processing and the operation of our information technology (IT) systems. Through May 7, the IRS received more than 126.7 million individual Federal tax returns and issued more than 84.8 million refunds totaling more than \$242.8 billion. A more detailed discussion of the filing season is provided later in this testimony.

At the same time, the IRS is working closely with the Treasury Department to implement the American Rescue Plan Act of 2021 (ARP Act) as quickly as possible to help the Nation's taxpayers. As part of these efforts, we took immediate steps to begin delivery of the third round of Economic Impact Payments (EIP) to millions of Americans within days of the legislation being signed on March 11. Through May 12, we have disbursed about 165 million payments totaling approximately \$388 billion. The IRS is also coordinating with Treasury on another important provision, which provides periodic advance payments of the Child Tax Credit (CTC) to eligible Americans. The IRS will be working hard to deliver this program quickly and efficiently.

Now in my third year as Commissioner, I remain extremely proud to be working for the IRS and excited about the future of our agency. We are grateful for the increased and multi-year funding that will allow the IRS to (i) modernize our systems, (ii) increase our workforce and their capabilities through a robust recruitment and training program, (iii) implement the provisions of the Taxpayer First Act, including improving the taxpayer experience, and (iv) conduct compliance activities that support our voluntary tax compliance system.

My experiences as Commissioner have strengthened my belief that a fully functioning IRS is critical to the success of our Nation. In fiscal year 2019, the IRS collected \$3.56 trillion in taxes and generated almost 96 percent of the funding that supports the Federal Government's operations. We serve and interact with more Americans than nearly any other public or private organization.

This unprecedented pandemic illustrates the significant role that the IRS plays in the overall health of our country. We have been called to provide economic relief during this national crisis while also fulfilling our routine responsibilities of tax administration.

I am proud that IRS employees have responded admirably to the COVID-19 situation by quickly facilitating financial assistance and administrative relief to hundreds of millions of deserving and needy Americans—including distributing \$800 billion in Economic Impact Payments since the spring of last year. People at the IRS continually demonstrate just how much they care, and how important the agency is to our country, by their heroic response to events over the past year. At the same time, the IRS remains focused on its core mission, striving to serve taxpayers in a manner that facilitates voluntary compliance by providing meaningful guidance and proper levels of staffing and support at points of significant taxpayer interaction.

Given the events of the past year, we appreciate the \$3.1 billion in additional funding we received from Congress to respond to the COVID-19 pandemic and implement the EIPs and other tax changes. In addition, our base fiscal year 2021 funding level (excluding these additional resources) represents a 3.6 percent increase over fiscal year 2020. However, it will take time to overcome the challenges of the past decade, and the agency will continue to struggle to replace employees lost through attrition and expand our workforce, support implementation of our multi-year Integrated Modernization Business Plan as designed, and continue enhancing meaningful service and compliance efforts that will earn the trust and respect of every American and improve our working relationships with taxpayers and others in the tax community.

We respect and proudly serve all taxpayers, none more or less so than any other. We must operate from their perspective, through their eyes, enhancing their experiences while striving to provide clear, meaningful guidance and services, in the language of their choice, wherever possible. In support of compliant taxpayers, we must aggressively pursue non-compliant taxpayers by maintaining robust, visible civil and criminal enforcement efforts. We are making a difference, and we want to continue to successfully pursue our mission on behalf of our great country.

#### INVESTING IN THE IRS TO IMPROVE TAX ADMINISTRATION

##### *The President's Fiscal Year 2022 Discretionary Funding Request*

The President's Fiscal Year 2022 Discretionary Request advances key Treasury Department priorities, including ensuring that all Americans are treated fairly by our tax system. The request provides increased funding for the IRS to provide additional oversight of high-income and corporate tax returns, ensuring that the wealthy and well-connected pay what they owe and play by the same rules as everybody else.

To ensure that all Americans are treated fairly by the Nation's tax system, including that the wealthy and corporations comply with existing laws, the discretionary request provides \$13.2 billion for the IRS, an increase of \$1.2 billion or 10.4 percent above the 2021 enacted level.

With this funding, the IRS would: increase oversight of high-income and corporate tax returns to ensure compliance; provide new and improved online tools for taxpayers to communicate with the IRS easily and quickly; and improve telephone and in-person taxpayer customer service, including outreach and assistance to underserved communities.

In addition to increases for base IRS enforcement funding, the 2022 discretionary request provides an additional increase of \$417 million in discretionary funding through a proposed discretionary cap adjustment for tax enforcement as part of a multiyear tax initiative that would increase tax compliance and increase revenues. Altogether, the 2022 discretionary request would increase resources for tax enforcement by \$900 million.

I would be happy to discuss the request further when we submit our more detailed Budget Justification later this spring.

##### *The American Families Plan*

A robust and sustained investment in the IRS is necessary to ensure it can do its job of administering a fair and effective tax system. In the American Families Plan, the President has included a series of proposals in that overhaul tax administration and provide the IRS the resources and information it needs to address tax evasion. All told, these reforms will generate an additional \$700 billion in tax revenue over the course of a decade, net of the investments made. Specifically, the tax administration reforms will:

- Provide the IRS the resources it needs to stop sophisticated tax evasion.*—The IRS needs additional resources to pursue costly tax evasion. These cases are not easy to resolve; the average investigation of a high-wealth individual takes 2 years to complete and often requires the IRS to commit substantial resources. Moreover, the lack of adequate investment in compliance has significant rev-

enue consequences. A key component of this initiative is the provision of a sustained, multi-year stream of funding. Altogether, the proposal directs roughly \$80 billion to the IRS over a decade to fund an array of priorities—including overhauling technology to improve enforcement efforts, which is more effectively implemented with the assurance of a consistent funding stream. This investment will also facilitate the IRS hiring and training auditors to focus on complex investigations of large corporations, partnerships, and global high-wealth individuals. The President's proposal directs that additional resources go toward enforcement against those with the highest incomes, rather than Americans with actual income of less than \$400,000.

- Provide the IRS with more complete information.*—When the IRS has information from third parties, income is accurately reported, and taxes are fully paid. However, high-income taxpayers disproportionately accrue income in opaque sources—like partnership and proprietorship income—where the IRS struggles to verify tax filings. This reform aims to provide the IRS information on account flows so that it has a lens into investment and business activity—similar to the information provided on income streams such as wage, pension, and unemployment income. Importantly, this proposal provides additional information to the IRS without any increased burden for taxpayers. Instead, it leverages the information that financial institutions already know about account holders, simply requiring that they add to their regular, annual reports information about aggregate account outflows and inflows. Providing the IRS this information will help improve audit selection so it can better target its enforcement activity on the most suspect evaders, avoiding unnecessary (and costly) audits of ordinary taxpayers.
- Overhaul outdated technology to help the IRS identify tax evasion.*—Elements of IRS IT systems are antiquated and make it difficult for the IRS to identify those who are not paying what they owe and to help those who want to comply. The President's proposal provides the IRS much-needed resources to modernize its technological infrastructure. Leveraging 21st century data analytic tools will enable the IRS make use of new information about income that accrues to high-earners and will help revenue agents unpack complex structures, like partnerships, where income is not easily traced.
- Improve taxpayer service and deliver tax credits.*—A well-functioning tax system requires that taxpayers be able to interact with the IRS in an efficient and meaningful manner. Inadequate resources often mean that IRS employees are unable to provide taxpayers timely answers to their tax questions. Service enhancement will improve the ability of the IRS to communicate with taxpayers securely and promptly. Importantly, the proposal also includes the necessary resources to ensure that the IRS effectively and efficiently delivers tax credits to families and workers, including newly expanded Child Tax Credits and Child and Dependent Care Tax Credits.
- Regulate paid tax preparers.*—Taxpayers often make use of unregulated tax preparers who lack the ability to provide accurate tax assistance. These preparers submit more tax returns than all other preparers combined, and they make costly mistakes that subject their customers to painful audits, sometimes even intentionally defrauding taxpayers for their own benefit. The President's plan calls for giving the IRS the legal authority to implement safeguards in the tax preparation industry. It also includes stiffer penalties for unscrupulous preparers who fail to identify themselves on tax returns and defraud taxpayers (so called “ghost preparers”).

#### UPDATE ON THE 2021 FILING SEASON

The IRS workforce navigated preparation for the 2021 filing season while continuing to implement COVID-related relief measures and delivering an extended 2020 filing season. These circumstances challenged our ability to make the necessary annual changes for filing season 2021. Nonetheless, as a result of the ongoing efforts of our employees, the IRS is on track to deliver a smooth filing season again this year.

I'm pleased to report the filing season opened successfully on February 12. To give you an idea of how well our systems performed, the IRS over that initial weekend received a total of 55 million submissions, which includes individual Federal returns along with other items such as State tax returns, amended returns and returns filed by businesses. At the peak that weekend, our IT systems enabled us to successfully receive 335 submissions per second.

The February 12 opening of the filing season was slightly later than in previous years. The delayed start gave the IRS time to do additional programming and test-

ing of our systems following the December 27 tax law changes that provided the second round of EIPs and other benefits. The additional programming and testing ensured that people would receive their needed tax refunds quickly, and also receive any remaining stimulus tax credits they might be eligible for as quickly as possible.

The delay in the start of the filing season did not add any additional delays to refunds on returns claiming the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC). By law the IRS cannot issue these refunds before February 15. This filing season, the IRS was able to issue refunds for EITC and ACTC returns on February 16 and 18, 2021. We expect those refunds were promptly available in taxpayer bank accounts if they chose direct deposit and there were no other issues with their tax return. We have encouraged taxpayers to e-file their returns and to check the Where's My Refund online tool on IRS.gov or the IRS2Go app to find out their estimated refund date.

On March 17, Treasury and the IRS announced that the deadline for individuals to file Form 1040 and pay their Federal income tax has been extended from April 15, 2021 to May 17, 2021. IRS Notice 2021-21 provides details on the additional tax deadlines which have been postponed until May 17. After carefully considering all the options, the Department of the Treasury and the IRS determined a limited 2021 filing season deadline extension for individuals filing Form 1040 to May 17, 2021, was in the best interest of tax administration.

All individuals had the option to obtain an automatic extension of time to file a Federal income tax return until October 15, 2021. Taxpayers needed to request the filing extension on or before May 17, 2021. For most, the request only required their name, address and Social Security number.

While we recognized the desire and importance of requests to further extend the 2021 filing season deadline or expand the scope of the extension, doing so would have posed a significant potential risk to implementing the ARP Act. Additionally, it could have further delayed delivery of Recovery Rebate Credits (RRCs) and the third round of EIPs, as well as refunds—including EITC and CTC payments—to the most vulnerable Americans.

As part of our work on the filing season, the IRS continues to spread the word about EIPs by reminding people who didn't initially qualify for a payment—or didn't receive the full amount—that they should check to see if they qualify to claim the payment as an RRC. The EIPs represented advance payments of the RRC, and this credit can be claimed on the 2020 tax return, by taxpayers and by individuals who don't normally file. The 2020 Instructions for Forms 1040 and 1040-SR include a worksheet that can be used to calculate the amount of any RRC for which a taxpayer is eligible. Individuals are encouraged to file electronically to claim this credit, and most can do so at no cost with IRS Free File, including those who do not have a filing requirement.

This process should not be a burdensome action for individuals, including those who normally do not file. We realize that delayed processing of some 2019 returns could affect the ability of some taxpayers to claim the RRC, so we are working as quickly as possible to process outstanding returns.

The IRS also will continue working with groups inside and outside the tax community to get information directly to people experiencing homelessness and other groups to help them receive payments in this latest round of EIPs. Our message to these groups is: For those who don't normally file a tax return, they will need to file a basic return with the IRS. Doing so will provide the IRS with the information we need to deliver an EIP to them. Once that return is processed, the IRS can quickly send stimulus payments to an address selected by the eligible individual. People do not need a permanent address or a bank account, and the IRS will still issue the payment even if they haven't filed a tax return in years.

Another important filing season reminder involves people who received unemployment compensation during 2020. We are working to make sure they understand the tax law governing unemployment benefits they received pursuant to U.S. law or that of a State. In general, these payments are taxable and must be reported as income on taxpayers' Federal returns. These individuals should receive Form 1099-G showing the amount they were paid, along with any Federal income tax they elected to have withheld. Since some States do not mail Form 1099-G, some recipients will need to get the electronic version of the form from their State's website.

However, the ARP Act exempts the first \$10,200 in unemployment compensation from Federal taxation for individuals with income below \$150,000. For those who received unemployment benefits last year and have already filed their 2020 tax return, they should not file an amended return.

As set forth in an IRS news release (IR-2021-71) issued on March 31, 2021, because the change occurred after some people filed their taxes, the IRS will take steps in the spring and summer to make the appropriate change to their return



which may result in a refund. The first refunds are expected to be made in May and will continue into the summer. For those taxpayers who already have filed and figured their tax based on the full amount of unemployment compensation, the IRS will determine the correct taxable amount of unemployment compensation and tax. Any resulting overpayment of tax will be either refunded or applied to other outstanding taxes owed. For those who have already filed, the IRS will do these recalculations, in two phases starting with those taxpayers eligible for the \$10,200 exclusion. The IRS will then adjust returns for those married filing jointly taxpayers who are eligible for the \$20,400 exclusion and others with more complex returns.

There is no need for taxpayers to file an amended return unless the calculations make the taxpayer newly eligible for additional Federal credits and deductions not already included on the original tax return. For example, the IRS can adjust returns for those taxpayers who claimed the EITC (or other credits) and, because the exclusion changed the income level, they may now be eligible for an increase in the EITC amount which may result in a larger refund. However, taxpayers would have to file an amended return if they did not originally claim the EITC but now are eligible because the exclusion changed their income. These taxpayers may want to review their State tax returns as well.

The IRS is also working to alert taxpayers to an identity theft scam involving these payments. There have been instances of criminals using stolen identities to fraudulently apply for and receive unemployment compensation. For many individuals who did not claim unemployment compensation last year, this issue came to light when they began receiving 1099-G forms with amounts they never applied for or received. We encourage anyone in this situation to file an accurate return only reporting the taxable funds they actually received, report this fraud to the state agency that issued the 1099-G, and ask the agency to issue them a corrected 1099-G showing the correct amount. They can also go to [dol.gov/fraud](https://www.dol.gov/fraud) for more information about how to reach their State workforce agency and report this type of fraud.

During this filing season, the IRS has continued to emphasize the safety and health of taxpayers and our employees. For that reason, our face-to-face operations have been limited to appointment services, with provision for assisting taxpayers with hardships on a walk-in basis. We believe that this year, it is more critical than ever for taxpayers and tax professionals to take advantage of e-filing and online and virtual services to help them with their taxes. We continue to encourage taxpayers to use electronic tools to the extent possible, including IRS.gov, where they will find a wealth of helpful information.

For taxpayers who need help preparing and filing their returns, I'm pleased to report that the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs supported by the IRS have again been providing free assistance to eligible individuals. I'm very proud of the work our VITA and TCE partners do during the filing season to help taxpayers at approximately 8,000 sites around the country, including military bases. This year, to ensure the health and safety of taxpayers and volunteers, many volunteer tax preparation sites have been offering virtual help to taxpayers, either over the phone or online. Some sites have still offered in-person tax help, but safety and social distancing have been emphasized.

Understanding the need to plan for the future and the desire to maintain a safe operating environment, the IRS will continue operating under its current posture until further notice, and we will continue to follow—and where possible, exceed—applicable CDC guidelines for public health and safety and measures. We will continue to balance responding to urgent tax administration needs with doing everything possible to protect taxpayers and our employees.

We appreciate the patience and understanding of taxpayers and tax professionals as we work to deliver the filing season during this challenging time. I am confident the IRS will deliver for the Nation, just as it has during other times of national urgency.

#### *Phone Level of Service During the 2021 Filing Season*

An important service delivery channel, during the filing season and throughout the year, continues to be our toll-free telephone line, which constitutes one of the world's largest customer service phone operations. This filing season through April 16 the IRS has handled approximately 25.4 million taxpayer calls, with nearly one third, or 8.1 million, answered by our Customer Service Representatives (CSRs). The rest were calls made to lines providing automated messages containing helpful tax information.

When we were submitting our Congressional Budget Justification level of service (LOS) estimates for the 2021 filing season last spring (before the pandemic, EIP1, EIP2, EIP3, partial exclusion of unemployment compensation, and other tax law changes emanating from several rounds of legislation), there was no way to predict

the pandemic and the impact it would have on our call volume, filing season, and hiring. We are still working through the impacts of COVID-19, which created staffing shortages and closures, and we have been experiencing a much higher-than-expected call volume coupled with an increase in call handling time caused by greater call complexity due to three rounds of EIPs and other tax law changes.

We attempted to mitigate these issues by starting the CSR hiring process for the 2021 filing season earlier than normal, with the anticipation that the high unemployment rate throughout the country might result in larger applicant pools in all locations. However, this was not the case. We set a CSR hiring goal for fiscal year 2021 of 5,000 CSRs but have encountered significant hiring challenges during the pandemic, including low applicant pools in some locations, delays in fingerprinting due to closed facilities, and delays in processing applicants virtually. As such, the IRS has onboarded approximately 3,800 CSRs (our largest-ever hiring of phone assistants for a filing season), for a total of approximately 13,760 CSRs. We also expect to hire an additional 1,000 CSRs to be ready this summer with the funding provided in the ARP Act for implementation of the child tax credit changes, to address potential call volume increases.

While we have many CSRs, we also experienced record-breaking and unprecedented phone demand this year. For example, on March 15, 2021, we had 8.6 million calls, which is approximately 1,500 calls per second. That volume was a 600 percent increase compared to normal call traffic. During a typical filing season, we average 2 to 3 million calls each day. Our ability to manage telephone demand is constrained by two factors: the number of assistants available and the capacity of the telephone routing equipment used to place callers in line for service. Accordingly, our current LOS for the 2021 filing season is significantly less than where we want to be, and that may fluctuate further based on increasing call volumes throughout the summer.

#### *Improving Service to Diverse Communities*

We view our efforts through the eyes and experience of those we proudly serve. An important way the IRS serves taxpayers during the filing season and throughout the year is by communicating with them in their most comfortable language. In preparing for the 2021 filing season, the IRS took important steps to further improve the amount of service we provide in multiple languages.

Prior to this filing season, the IRS for years had been working to provide tax information in additional languages. For example, many pages of IRS.gov are available in Spanish, Vietnamese, Russian, Korean, Haitian Creole and Chinese (Simplified and Traditional), and basic tax information is available on the website in 20 languages. And the IRS continues to expand its efforts to post and link to information available in multiple languages on social media platforms, including Twitter and Instagram.

I'm proud to say that this filing season, we are providing the Form 1040 in Spanish for the first time. Also for the first time, the 2020 Form 1040 gives taxpayers the opportunity to indicate whether they wish to be contacted in a language other than English.

Other recent changes include making Publication 1, *Your Rights as a Taxpayer*, available in 20 languages. In addition, we have issued a new, streamlined version of Publication 17, *Your Federal Income Tax*, that is easier to navigate and faster to download than previous versions, and is now accessible on most personal electronic devices. The new Publication 17 is available in English, Spanish, Chinese (Traditional and Simplified), Vietnamese, Russian and Korean.

Additionally, taxpayers who interact with an IRS representative now have access to over-the-phone interpreter services in more than 350 languages. The IRS has also recently begun inserting information about translation services and other multilingual options into the high-volume notices we send out to taxpayers. Our diverse workforce is proud to be reflective of the diverse communities we serve.

#### PROVIDING RELIEF TO TAXPAYERS DURING THE COVID-19 PANDEMIC

##### *Delivering Economic Impact Payments*

While delivering last year's filing season—which was the longest in history—and preparing for the 2021 filing season, IRS employees also worked many long hours to implement major provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act, including developing new tools and meaningful guidance to deliver the first round of EIPs in record time. In fact, millions of Americans started seeing EIPs show up in their banking accounts within 14 days after the March 27, 2020 enactment of the CARES Act. IRS employees successfully disbursed more than 160 million payments of nearly \$275 billion in this first round of EIPs.

The IRS also quickly delivered the second round of EIPs included in the Tax Relief Act enacted on December 27, 2020. The IRS disbursed approximately 147 million payments totaling about \$142 billion and in many cases, these payments started posting to bank accounts just 2 days after the law's enactment. IRS employees worked nonstop through the holidays to get these payments out, while remaining hard at work preparing for the 2021 tax filing season. I want to emphasize the amount of advance preparation our employees did, once it started to become apparent that a second round of payments would be enacted, in order for us to achieve such a quick turnaround.

Another factor helping us speed the effort on the second round of EIPs was our ability to build off and use the data we had accumulated in delivering the first round. That accumulation of data again helped us move quickly on delivery of the third round of EIPs that began in March.

The vast majority of people did not need to take any action to receive an EIP, either in the first or second round, and we have been working to ensure the same is true for the third round of EIPs. The IRS calculated and automatically sent the payments to taxpayers as well as others eligible, including many people who may not normally need to file returns, such as senior citizens with modest incomes, others receiving Social Security retirement, survivors or disability insurance benefits, and railroad retirees. The IRS also issued EIPs last year to those whose only income is from Supplemental Security Income (SSI) benefits and people receiving disability compensation, pension or survivor benefits from the Department of Veterans Affairs (VA).

In our initial work on EIPs during the spring of 2020, the IRS worked cooperatively with the Social Security Administration (SSA), the VA, and other government agencies to pull these agencies' information into our systems to ensure that we could send payments to these groups of people without requiring them to file a return or take any other action. These agencies provided critical help that allowed the IRS to reduce the burden for these individuals, including reducing the need for them to seek in-person tax return preparation to file a return. This effort was a significant step beyond anything the IRS was able to do during previous stimulus efforts to help taxpayers. For the first round of EIPs in the spring of 2020, these groups received their payments in four to six weeks after the CARES Act was signed into law.

Again this year, the IRS began working with the SSA and the VA early on to help ensure we could deliver the latest round of EIPs as soon as possible to non-filers who receive Federal benefits such as those described above. Because information about who receives Federal benefits changes over time, the IRS needed these agencies to provide updated 2021 information, and we requested this information as quickly as possible so we could process the beneficiary data and make these automatic payments.

For the latest round of EIPs, we have surpassed key milestones in last year's timeframe, and we will continue working to get these payments out to Federal beneficiaries as soon as possible. Thus far we have disbursed more than 19 million EIP3 payments with a total value of more than \$26 billion to Retirement, Survivors, and Disability Insurance (commonly referred to as "Social Security") program beneficiaries who didn't file a 2020 or 2019 return and who did not use the Non-Filers tool last year. We have also disbursed more than 3 million payments to SSI beneficiaries with a total value of nearly \$5 billion, and nearly 85,000 payments with a total value of more than \$119 million to Railroad Retirement Board beneficiaries. Additionally, we have disbursed more than 320,000 payments, with a total value of \$450 million, to VA beneficiaries who receive Compensation and Pension benefit payments but who don't normally file a tax return.

In its efforts last year to quickly deliver EIPs and provide information to eligible recipients, the IRS provided two new online tools:

- The *Non-Filers* tool, which was launched on IRS.gov on April 10, 2020 and available through November 21, 2020 in both English and Spanish, allowed people who normally don't have a filing obligation to enter basic information so that they could receive their payment.
- The *Get My Payment* tool, which launched on IRS.gov on April 15, 2020 and is available in English and Spanish, allows many taxpayers to check the status of their payment or enter their bank account information to receive their payment electronically, if it was not already provided on a 2019 or 2018 tax return or through the Non-Filers tool.

Since the launch of Get My Payment, nearly 350 million successful status checks have been made using this tool. And nearly 15 million people have successfully pro-

vided their banking information, meaning they received their payments much more quickly via direct deposit.

The IRS has taken significant steps to reach all potential EIP recipients throughout each round of EIPs. We extended our reach far beyond our normal contacts to many lower-income, military, veterans, retired, older, limited English proficient, and homeless communities around the country. In fact, we worked with our partners to distribute EIP outreach materials in 35 languages within these communities.

We have continued to ask for assistance from hundreds of local community groups and religious organizations, as well as the national associations to which they belong, and numerous others to reach into their respective communities. We worked with thousands of homeless organizations, including more than 300 organizations that became “Trusted Partners” where an unsheltered homeless individual could designate to receive their payment. We also expanded the authority of Low-Income Taxpayer Clinics (LITCs) to provide return preparation assistance for individuals seeking their EIPs. To support these ongoing efforts, we developed a special online toolkit containing helpful information for groups to use in identifying and getting the word out to people who qualify for EIPs. The toolkit, IRS Publication 5420, can be found on IRS.gov. We also provided information regarding a similar online toolkit to every Member of Congress.

Also as part of this effort, we mailed a letter in September 2020 to millions of Americans who might be eligible, but hadn’t received an EIP and didn’t file a return for either 2018 or 2019. We obtained these names by performing an extensive internal analysis of records corresponding to individuals who did not file returns or receive Federal benefits and were not responsive to other EIP outreach efforts. These individuals did not typically have a tax return filing requirement but had received Forms W-2, 1099s and other third-party statements. We sent letters to these individuals to notify them of their potential eligibility as we lacked information on: whether they would qualify; whether they had eligible dependents; or whether an individual may be ineligible due to being claimed as a dependent by someone else.

To help these groups, we extended the initial access to the Non-Filers Tool five weeks to November 21, 2020. This new deadline provided additional time for individuals to use the tool without adversely affecting our work on the 2021 filing season. On November 10 we held National EIP Registration Day (and supported other similar events), to encourage people who had not received a payment to use the Non-Filers tool before the November 21 deadline.

Our outreach effort during delivery of this third round of EIPs includes reminding people who did not receive payments in the first or second rounds last year that, if they qualify for them, they can receive those payments by filing a tax return and claiming the RRC. We are also encouraging these people, when filing their return, to check to see if they qualify to claim other tax credits, including the EITC and the CTC.

The IRS has also been providing support to Members of Congress who have been receiving inquiries from constituents about the payments. To help provide these answers, the IRS set up a special online “EIP Mailbox” last May to which congressional staffs could send inquiries.

The EIP Mailbox received more emails than we anticipated, with the number of emails averaging 700 a day at first and reaching 1,000 a day by the summer. To make sure we helped as many people as possible, we modified our processes and temporarily reassigned IRS employees to respond to these inquiries. By the time we closed the mailbox in December, we had received a total of more than 130,000 inquiries and resolved an estimated 90 percent of the questions. To accommodate inquiries related to the second round of EIPs, we reopened the EIP mailbox on January 11, 2021, and it has remained open since then. Currently, we are receiving approximately 150 emails a day.

#### *Implementing Business Tax Relief*

Along with EIPs for individuals, the IRS has also been working to make sure businesses know about important tax relief available to them, and we continue to provide guidance about business tax relief. This assistance was originally provided in COVID-relief legislation last year. Two important measures, the Employee Retention Credit and the Credit for Sick and Family Leave, have already resulted in, as of May 3, 2021, credit amounts claimed on returns of more than \$18 billion. These measures were extended and/or modified by the ARP Act as follows:

—*Credit for Sick and Family Leave.*—Eligible employers are entitled to receive a refundable (and advanceable) tax credit for the qualified sick leave and family leave they provide to employees dealing with specified health and family issues related to the coronavirus between April 1, 2020, and September 30, 2021. The IRS is working to ensure that eligible employers (employers with fewer than

500 employees and certain governmental employers) know the ARP Act allows them to claim a tax credit for providing leave for employees receiving COVID-19 vaccinations and recovering from the vaccines.

—*Employee Retention Credit.*—This refundable credit is designed to encourage businesses to keep employees on their payroll. As amended by the American Rescue Plan, the refundable credit is 70 percent of up to \$10,000 in qualified wages per quarter paid by employers financially affected by COVID-19. Qualifying wages—including health plan expenses—are those paid after June 30, 2021 and before January 1, 2022. The credit was modified to include: eligibility for certain startup businesses; special rules for “severely financially distressed employers” that experienced a gross receipts reduction of more than 90 percent; and a 5-year statute of limitations for the IRS to make an assessment of any amount attributable to the employee retention credit.

In addition, for the Credit for Sick and Family Leave and the Employee Retention Credit, the IRS set up a system that allowed businesses to claim these refundable credits in advance during 2020 and thus have more funds available to keep their workers employed without having to wait to claim the credits on tax returns filed in 2021.

Another important area where Congress provided relief involves net operating losses of businesses. The CARES Act includes a provision allowing businesses to carry back net operating losses over 5 years and obtain tax refunds for those years. The IRS issued Revenue Procedures 2020-23 and 2020-24 and Notice 2020-26 to clarify this provision and help businesses and partnerships take advantage of the relief it provides.

#### *Providing Administrative Relief and Protecting Taxpayers*

Along with implementing the CARES Act, the IRS provided significant administrative relief in 2020 to ease the burden on taxpayers:

- A postponement of the deadline for individuals to file Federal returns and pay Federal income tax from April 15, 2020, to July 15, 2020. This relief covered all taxpayers with a tax return filing deadline or payment due date between April 1, 2020, and July 15, 2020. As noted above, this year we provided a more limited extension, applying to individuals filing Form 1040, to May 17, 2021.
- The IRS People First Initiative, under which we temporarily adjusted our processes to help people and businesses during these uncertain times. This included limiting certain collection and examination activities.

While it has been important to the tax system, and the Nation, for the IRS to resume its critical tax compliance responsibilities, we continue to assess the wide-ranging impacts of COVID-19 and other difficulties people are experiencing.

To that end, the IRS continues to offer a wide range of taxpayer relief options. We are:

- Doing everything we can under existing rules for immediate, broad-based relief from unpaid liabilities resulting from COVID-19 issues, including those affected by IRS mail processing and correspondence delays;
- Removing bureaucratic barriers and expanding flexibilities to all taxpayers whose financial condition has been affected by COVID-19; and
- Balancing the relief provided against the need to serve all taxpayers and uphold the Nation’s tax laws.

When appropriate, the IRS can help taxpayers by abating penalties, extending payment plans, expanding access to installment agreements, and providing relief for taxpayers having difficulty meeting the terms of previously accepted offers to settle tax debts.

Our initiatives offer help in a variety of ways. Taxpayers without income or the ability to pay can request a temporary suspension of collection activity through the Currently-Not-Collectible program. Taxpayers with balance due amounts may qualify for installment agreement options with generous terms and timeframes, and taxpayers with existing Online Payment Agreements, or Direct Debit Installment Agreements can propose lower monthly payment amounts and update their payment due dates. Other penalty relief options include first-time abatement for reasonable cause.

The IRS has also been diligently working to alert taxpayers and tax professionals to scams related to COVID-19, especially calls and email phishing attempts tied to the EIPs. The IRS and its partners throughout the country have been publicizing these scams.

## MAINTAINING IRS OPERATIONS DURING COVID-19

The IRS's initial efforts to provide relief to taxpayers came during Filing Season 2020 and at a time when the agency had to temporarily scale back operations to protect the health and safety of both IRS employees and taxpayers. Even with our reduced operations, the IRS continued to successfully deliver the 2020 filing season, by processing electronic tax returns, issuing tax refunds, and accepting electronic payments.

During COVID-19, the IRS has been using innovative approaches to make sure our employees can deliver on the agency's mission:

- We have set records for the number of IRS employees teleworking, thanks to the continued support of our Information Technology (IT) division;
- Our IT systems continue to perform at a high level. Our internal networks are supporting nearly 61,000 employees online at the same time, all in a secure environment;
- IT provided the equipment necessary to allow thousands of our customer service representatives (CSRs) to telework, which gave critical help to the IRS in its efforts to resume phone assistance to taxpayers while maintaining the safety of employees during the COVID pandemic;
- Our external-facing IT systems also continue to work extremely well in a time of increased demand, including filing season systems as well as IRS.gov tools; and
- We have been able to continue bringing on new employees through the use of a successful virtual onboarding process.

As part of these efforts, the IRS continues to find ways to provide new virtual services and online tools for practitioners to ensure the critical work of the agency continues.

Last summer, for example, we moved quickly to shift our Nationwide Tax Forums for tax professionals into an all-virtual setup rather than handling these in person at locations across the country. And in our 30th year of offering the forums, I'm proud to report our virtual version last year still attracted more than 10,000 practitioners from across the country. This summer, we will again offer the Tax Forums virtually.

Another great example is our announcement earlier this year that we are giving tax professionals a new online option to obtain signatures from individual and business clients and submit authorization forms electronically. This option applies to Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*. This development is an important first step in our ongoing efforts to expand digital options for tax professionals using electronic signatures and online uploads.

New options for taxpayers include the launch last year of an electronic filing option for those who need to amend their income tax returns. Providing an online filing option for the amended individual income tax return—also known as Form 1040-X—has been an IRS goal for many years and is a major milestone for us. Electronically accepting Form 1040-X posed a number of unique challenges, but we succeeded thanks to a great deal of hard work by employees across the agency.

#### *Resuming Operations and Answering Taxpayer Needs*

Last summer, the IRS began resuming operations for non-portable services, as more States and local areas also began reopening. As we have continued our work during this unusual period, we have been aware of the continuing taxpayer needs and the backlog of work at our campus. We are investing in our Human Capital Office to ensure that we can hire the necessary taxpayer service personnel in our priority areas.

One area we have worked hard to improve upon is opening the mail. Because we had to scale back mail-processing functions last spring due to the pandemic, we developed a backlog of unprocessed paper returns and other mail. At one point, the backlog reached more than 20 million pieces. But since last summer, we have been working through this backlog, and we are now current.

While working to reduce the paper backlog, we also have provided relief for taxpayers who sent us mail that was unopened for a period of time. For example:

- For people who had tax refunds affected by our closure, the IRS has paid interest on refunds. These payments, which can sometimes show up as a second deposit, averaged \$18 for nearly 14 million taxpayers.
- For people who made a payment but where there was a delay in when the mail was opened, we credited people on the date the mail was received, not the day we processed the payment.

As difficult as these last months have been, we have seen many examples of how this crisis has brought out the best in people, including the IRS workforce. I am proud of what our employees have accomplished during the pandemic. Our employees shared the same health and safety concerns for themselves and their families as every other American. However, they not only went the extra mile in doing their jobs; they also made a difference in their communities.

For example, we saw IRS employees across the country doing some amazing things: getting out their sewing machines and creating homemade face masks for family members and friends; donating essentials to protect first responders on the front lines in their communities; and delivering “care packages” to seniors in nursing homes. During last summer’s Feds Feed Families Campaign, employees at our Memphis Campus donated a record-breaking 51,800 pounds of food to the Mid-South Food Bank!

Another good example of providing help during the pandemic involved our Criminal Investigation division. A group of 12 special agents deployed to Travis Air Force Base in Fairfield, California, in March 2020. They helped provide security and quarantine enforcement at hospitals and other locations, such as COVID-19 quarantine sites operated by the Department of Health and Human Services (the Assistant Secretary for Preparedness and Response and the Centers for Disease Control and Prevention).

It is important to note that, in addition to their efforts during the pandemic, IRS employees routinely deliver in times of need for the nation when disasters strike. Since 2012, more than 10,000 IRS phone assistants have stepped up to help take the burden off the Federal Emergency Management Agency’s (FEMA) call centers in the aftermath of hurricanes and other natural disasters, answering an estimated 1.6 million calls from storm survivors seeking help. We have also had many agents from our Criminal Investigation division provide their help and expertise during disasters. For example, in September 2020, a team of about two dozen special agents deployed to Oregon in support of those fighting wildfires in that State. More recently IRS phone assistants were called upon to be ready to help FEMA with respect to the weather-related difficulties in Texas.

#### ENSURING TAX COMPLIANCE

Enforcement activities of the IRS affect revenues directly, through the collection of unpaid taxes, and indirectly, by influencing taxpayers’ behavior. Nearly all of the IRS’s funds are appropriated annually by Congress. Appropriations for the IRS fell by about 20 percent (adjusted for inflation) since fiscal year 2010. About 70 percent of the IRS’s overall budget is for labor, and thus the decline in the overall IRS budget resulted in a 15 percent decline in the number of full-time employees at the agency (since fiscal year 2010) and a 31 percent decline in the number of full-time employees working in enforcement roles (since fiscal year 2010). The number of examining revenue agents, who handle complex enforcement cases, fell by 35 percent, and field collection revenue officers, who manage difficult collections cases, dropped by 48 percent. The loss of approximately 17,436 enforcement employees since 2010 has resulted in the examination rate for individual returns falling by about 45 percent; for businesses with assets equal to or exceeding \$10 million, the examination rate fell by about 72 percent.

Despite these resource challenges, the IRS remains committed to having a strong, visible, robust tax enforcement presence to support voluntary compliance. When taxpayers file their returns, they should feel confident others are doing the right thing too. Enforcement of the tax laws is critical to ensuring fairness in our tax system. IRS employees who collect taxes, audit returns and investigate fraud, as well as tax-related identity theft, work hard throughout the year to enforce the tax laws while treating taxpayers fairly and respecting their rights. This commitment is true across our agency—our divisions that deal with individuals, large businesses, small businesses and exempt organizations are highly coordinated. In fact, the IRS’s Office of Fraud Enforcement (OFE), which was created in March 2020, is actively encouraging and ensuring this coordination across IRS, promoting compliance, strengthening the IRS’ response to fraud and mitigating emerging threats.

Over the past 2 years, we have shifted significant examination resources and technology to increase our focus on high-income and high-wealth taxpayers. For example, an IRS initiative announced last year involves improving tax compliance among high-income taxpayers by increasing visits to those generally with incomes above \$100,000 who failed to file tax returns in 2018 or previous years. Substantially all experienced examiners—those who are the most highly trained with substantial accounting skills—are almost entirely focused on tax returns that include complex issues, such as high-income taxpayers, pass-through entities, multi-national tax-

payors involving international tax issues, large pension plans, private foundations and the most egregious situations.

As reported in the IRS's 2019 Data Book, the exam coverage rate (closed and in-process) for Tax Year 2015 of taxpayers with income of \$10 million or more was about 8.16 percent (down from almost 23.06 percent in 2010). The rate for taxpayers with income between \$5–10 million was 4.39 percent; for those with income between \$1–5 million was about 2.39 percent; for those with income between \$500,000–\$1 million was about 1.13 percent; and for those with income between \$200,000–\$500,000 was about 0.55 percent. The IRS receives more third-party information (Forms W-2s, Forms 1099, etc.) for taxpayers with income between \$200,000–\$1 million than for those above \$1 million. These audit rates are higher than for any other category of individual filers. We expect to see that trend generally continue with Tax Years 2016, 2017, and 2018.

We also have new compliance programs addressing virtual currency (non-filers and filers), return preparer non-filers, those who fail to file Form 8300, *Report of Cash Payments Over \$10,000*, and others. These programs require experienced, specialized examiners

Along with launching our OFE, where technical advisors provide fraud policy and operations support to all IRS operations, we also created an Office of Promoter Investigations (OPI) within the past year. OPI is focused on taxpayers and the promoters of abusive tax avoidance transactions, including abusive syndicated conservation easements and abusive micro-captive insurance arrangements, as well as the use of virtual currencies, offshore transactions and other transactions to inappropriately avoid or under-report tax. Substantially all of these transactions are engaged in by high-income individuals. OPI coordinates Service-wide enforcement activities, most often interacting with our Large Business & International division, our Small Business/Self-Employed division, OFE, the Office of Chief Counsel and our Criminal Investigation division.

We are also investing in our Human Capital Office to ensure that we can hire the necessary enforcement and related personnel in our priority areas, such as the oversight of large corporations, partnerships and other pass-through entities, and high income/high wealth taxpayers.

The IRS is committed to pursuing those who would intentionally evade their tax obligations and commit fraud. We are also pursuing those who promote and make use of abusive tax shelters, and are especially concerned about certain variations, including abusive syndicated conservation easements and micro-captive insurance shelters. The IRS Office of Chief Counsel, which appointed a National Fraud Counsel last year, is working closely with IRS compliance officers to properly and fully develop cases with indicators of fraud across all operating divisions, in pursuit of a civil fraud penalty where appropriate, or for the most egregious violations, a criminal fraud referral. Our Criminal Investigation division also does important work to uncover tax fraud.

Additionally, the IRS—in particular, the OFE and the National Fraud Counsel—has been focused on preventing COVID-19-related fraud and scams, working closely with the Small Business Administration, the Bureau of Fiscal Service and the Department of Justice to prevent and stop improper claims for tax credits and see that the unscrupulous individuals face appropriate civil and criminal sanctions.

Importantly, the IRS is using technology to develop new enforcement tools. Our advanced data and analytic strategies allow us to catch instances of tax evasion that would not have been possible just a few years ago. We also recognize that we must evolve our enforcement efforts to address new types of tax fraud and criminal behavior. For example, the IRS has been working to ensure taxpayers with virtual currency transactions understand the tax laws governing virtual currency and meet their tax obligations. Our Criminal Investigation Cyber Crimes Unit has been involved in new complex types of tax enforcement, including: taking down the largest child exploitation site operating in the Dark Net utilizing virtual currencies; uncovering international money laundering operations involving the theft of virtual currencies; and the seizure of terrorism financing sites maintained on behalf of al Qaeda, Hamas, and ISIS.

#### TAXPAYER FIRST ACT: UPDATE ON IMPLEMENTATION

Even during this challenging period, the IRS is meeting not only the immediate needs of taxpayers but is also developing an innovative approach to the future of tax administration that will better serve everyone, including those in underserved communities.

The IRS is using its implementation of the Taxpayer First Act (TFA), to make significant improvements in the way we serve taxpayers, enforce the tax laws in a



fair and impartial manner, and ensure our workforce collaborates and is well-trained. In January, pursuant to the statutory requirement, we submitted our TFA Report to Congress. This report includes strategic recommendations to improve the taxpayer experience, employee training, and the current agency organizational structure. The report is the culmination of input and feedback from our employees, our partners in the tax community, and other stakeholders.

I'm pleased to report that we will have strong, experienced leaders guiding us in our efforts to improve the taxpayer experience:

- Heather Maloy, a former IRS executive, has returned to the agency to be the new director of the Taxpayer First Act Office. Heather held many prominent positions while at the IRS, including Commissioner of our Large Business and International Division.
- Just two weeks after issuing the Report to Congress, we announced the creation of the Chief Taxpayer Experience Officer position to unify and expand efforts across the agency to serve taxpayers. We selected Ken Corbin, the Commissioner of our Wage and Investment Division, for this role. With more than three decades at the IRS, Ken Corbin is ideally suited to lead our efforts to improve interactions with the IRS for taxpayers and the tax professional community.

As we move forward on TFA implementation, our Enterprise Case Management initiative (ECM) is a major part of our Integrated Modernization Business plan and is a critical component in the implementation of long-term TFA changes. ECM will allow us to modernize key IRS business processes and migrate them to a common case management platform. This in turn will allow us to decommission as many legacy components and systems as possible. For our employees, implementing ECM will mean giving them appropriate access to a 360-degree view of a taxpayer's account and also support our ability to give taxpayers more digital options in their interactions with us. The employees who interact with taxpayers are helping to develop features and services that will best help their customers, and they have been the key to the success of ECM thus far.

The Tax Exempt/Government Entities Division's (TE/GE) Exempt Organizations Correspondence Unit process was the first business process to migrate to our new ECM platform in 2020. This milestone transitioned paper-based processes to an electronic format that enabled the Correspondence Unit to work more efficiently, speeding up the response time to organizations that interact with TE/GE. The lessons learned while migrating this business process to ECM will allow us to build on this initial success and migrate other business processes quickly and efficiently in the coming years. We are currently working on migrating the IRS Grants Management program in time to award grants under the new system in 2021 to organizations participating in the VITA and TCE programs.

Our progress thus far on implementation of the TFA shows how committed IRS employees are to serving the Nation. With our TFA Report guiding us, and with ongoing support and feedback from our employees and partners in the tax community, we will continue to make improvements to ensure the IRS can serve the needs of the Nation's taxpayers well into the future.

#### CONCLUSION

Chairman Van Hollen, Ranking Member Hyde-Smith and Members of the subcommittee, thank you again for the opportunity to update you on IRS operations, especially our responses to the COVID-19 situation. The IRS is dedicated to improving service to taxpayers, modernizing its systems and maintaining the integrity of the tax system, while also protecting the health of its workers and American taxpayers.

We believe we have made great strides over the past year and will continue this progress with the help of Congress, as we move the agency into the future. This concludes my statement, and I would be happy to take your questions.

Senator VAN HOLLEN. I thank you Mr. Commissioner. And I want to you and the extraordinary work you and the entire team, all the employees at the IRS, have done during these very difficult times. And many of those employees are constituents of mine in the State of Maryland. But of course, you have part of your team and all over the country.

We're going to do 8-minute rounds because of the, I think, the nature of this hearing. We really want to drill into some of the keys issues and identify how we can narrow that tax gap.

Mr. Commissioner, you recently testified that you believe the tax gap could be as high as \$1 trillion every year. Can you discuss the composition of that tax gap? I realize we don't have full visibility into it, that's why it is a tax gap. But if you could help break it down into some of its larger component parts that would help guide our discussion.

Mr. RETTIG. The individual component parts of the tax gap information that we provide are not overly difficult. Since 2001 we've been providing tax gap estimates, which for the most part, with respect to individuals, are broken into a non-filing tax gap, an under-reporting tax gap, and an underpayment tax gap.

The recent testimony that I think you're referring to, which was supported by more recent testimony in front of the Senate by the Acting Director of our research group, was the emphasis and the focus on the fact that our tax gap estimates are based on actual audit results randomly performed by non-specialized agents. That's where we have been receiving information since the first tax gap of 2001, moving into the present. The most recent tax gap was released in 2019, and it related to tax years 2011 to 2013.

Being sensitive to the fact that the Agency uses the tax gap to try to understand where and how to essentially deploy resources and limited resources, it was not lost on me when I was on the outside that the importance of this tool is the importance of the data that we receive and the information that we provide.

The tax gap information most recently that we provided was 2011 to 2013 and based on actual audit results. The assumption is that actual audit results are a good measure. In fact, they're the best measure that we might have, but a good measure not necessarily so.

When you look at declining audit resources, you look at declining training. For years the Agency has gone with no in-person training. We've gone to online training, and just quite frankly, I don't understand how an individual can learn the 704(b) regulations online or remotely.

Tax is complex. We have our agents on the examination side put into situations with people who have 20, 30, 40 years specialized experience, maybe on the inside, but also on the outside, for minute areas of tax law. We put people into that room for an examination where, quite frankly, I think the terminology that I used last time is that we get outgunned, not for a lack of desire on the part of our people.

I think the comments that you're driving to, which again were supported by our Director of Research, is what is the difference between the tax gap information that we publish? The last published was 2011 to 2013.

When I was asked, what's my feeling as to the accuracy, essentially, of the information that we publish, it was the same as when I came onboard. Tax year 2013 is, essentially, irrelevant in tax year 2021, if you're looking to where to put your resources when you consider the change in the world from that period of time.

You look at, just as an agency, the switch from the IRS going from paper to digital, our more recent switch going into a virtual environment, but the rest of the world too. I can sit here today and, on my phone, adjust—

Senator VAN HOLLEN. I'm sorry, Mr. Commissioner, I don't mean to cut you off, I don't.

Mr. RETTIG. I just go on, and I, you know,——

Senator VAN HOLLEN. I just got to get to some more questions, okay?

Mr. RETTIG. I feel passionate about——

Senator VAN HOLLEN. I know, I appreciate that. Even with 8 minutes, I'm going to have to get some more questions in here. Because what I'm really trying to get at, since we're trying to focus on how to narrow this gap, is not just the overall size but what tools you need.

And you and others have said that there's a high degree of compliance by taxpayers where their money is confirmed by three third parties, like wage payers, like pensions. But that is not the case from pass-through entities, like S corporations or partnerships. The President and others have suggested that the IRS be given authority to collect additional information from banks about this other kind of income.

And my question to you is do you agree that that has to be one of the tools in this arsenal to close the tax gap?

Mr. RETTIG. Increased information reporting and increased electronic receipt by the Internal Revenue Service of information reporting would be extremely helpful. We also need legislative changes. We need certain enforcement support. It is a multifaceted approach. It is not a single approach. I don't believe that one is maybe more important than the other.

We need to have the appropriate presence. We also need to have an appropriate balance between enforcement and taxpayer rights.

Senator VAN HOLLEN. Sure. But I guess my question is—because I'm going to ask you about your budget request in a minute. But the budget request in terms of the dollars you need is not in itself sufficient to close this gap, isn't that right?

Mr. RETTIG. That's correct. We cannot audit——

Senator VAN HOLLEN. Because you would need these other tools that the President has talked about, right?

Mr. RETTIG. That's correct.

Senator VAN HOLLEN. Okay. So, now I want to get to the money because it's been reported, I think confirmed, that the request—budget request, will be \$80 billion over 10 years. And that you have projected that with that allocation of money, combined with these additional tools we just mentioned, that you could close the tax gap by \$700 billion over 10 years. Is that right?

Mr. RETTIG. That's a Treasury Tax Policy figure that was delivered.

Senator VAN HOLLEN. So, let me ask you this. Because Mr. Rossotti has estimated that if we gave the IRS the tools they needed, including that third-party verification of income and additional resources, that you could potentially get as high as \$1.4 trillion in narrowing the tax gap over 10 years. What do you think about that estimate?

Mr. RETTIG. I believe that if the IRS is given the appropriate tools and resources, it can take us a little bit of time to implement. We need to train and upscale. I believe that the IRS could effectively recover between 10 and 20 percent of the tax gap. And that's

a meaningful figure. I leave it to the economist to determine what actually those recoveries would be.

Senator VAN HOLLEN. So, I guess, we're anticipating the budget request of \$80 billion. You mentioned the legislative changes required.

I guess my question then is if we make the legislative changes, how much—and we could give you as much as you wanted to close the tax gap—what is your maximum estimate of what that would be over 10 years if we gave you everything you needed?

Mr. RETTIG. The maximum amount that we could recover?

Senator VAN HOLLEN. Yes, over a 10-year period.

Mr. RETTIG. Because I thought you were going to say the maximum amount we would appreciate receiving. We appreciate receiving the maximum amount that Congress will allow us to receive.

Based on the information that I've seen, and I see the difference, and a lot of different people are analyzing it, I don't think it's fair for me to comment without having done the homework on these numbers. They range significantly.

I've seen people say that we could recover \$100 billion. I've seen the tax policy estimate of \$700 billion. I know that those were over 10-year periods, and people also tie in a succeeding 10-year period. I've seen Commissioner Rossotti's figures. I have not gone back and done the homework. And I don't think it'd be fair for me as a tax administrator to comment on that.

I do know that the information that we're talking about, the multifaceted approach we're talking about, and I'm quite respectful to the Ranking Members' comments about the use of the funds, but I do know it would be a gamechanger for the country in terms of what the IRS would be able to bring from amounts lawfully owed to the government.

Senator VAN HOLLEN. Right. Now, we are talking about the amounts, you know, lawfully owed.

Mr. RETTIG. Correct.

Senator VAN HOLLEN. And I appreciate that. Let me it turn over to the Ranking Member for questions.

Senator HYDE-SMITH. Mr. Commissioner, when you testified last before this subcommittee in 2019, you told Senator John Kennedy that, "I am not a believer in shifting funds from enforcement operations," yet the IRS has transferred \$295 million away from its enforcement account since you made that statement.

And you are planning to transfer an additional \$208 million away from the enforcement account this summer. What are you doing to manage the growing IT maintenance cost at the agency? And why does the IRS continue to follow a pattern of shining a light on enforcement and the tax gap when the public is watching, then transfer the money to IT contracts when it's not watching?

Mr. RETTIG. I stand by my statements to Senator Kennedy. I am an enforcement person. I was recently asked, I have the same position, the same thought process that I have on the inside that I did on the outside, that every dollar that has left the enforcement side of our house to go on operations support has been pulled through a very rigorous procedure, and that we do not have sufficient funds to maintain our operations support.

We have a modernization business plan that we launched in 2019. It was launched as a 6-year plan. We have only received 55 percent of the amount called for in that plan. In order to keep modernization on schedule, we have had to pull resources from every part of the service, and we are still not on schedule. We do not have the funds to take the activities that we need.

Without appropriate financial support on the operations support side of the house, we cannot be effective in enforcement. We have to buy things like laptops. And that comes out of the operations support.

Senator HYDE-SMITH. Are you having any success on the modernization act that you've implemented so far with the funds that you have?

Mr. RETTIG. We are. We're actually having considerable success. I would appreciate the opportunity to sit with you or with your staff and go through where we have been. We're not where we would want to be, but we've made huge strides in that area.

Senator HYDE-SMITH. And right now, how are we to have confidence that the requested funding increase for enforcement will not be transferred to IT at this point?

Mr. RETTIG. There is also in the Administration's budget that I anticipate, or I was told I think is going to be released this week. You'll see support on the Operations Support side.

I am exactly where you are in your mindset of saying Enforcement dollars should stay on the enforcement side of the house, Operations Support should be on that side of the house. We are looking at over a \$1 billion deficit on Operations Support by 2026. That's to maintain our systems. We need to modernize in order to level that curve.

I would appreciate the opportunity to sit with you because I think that people need to understand that situation.

Senator HYDE-SMITH. And I look forward to seeing the evidence of where and when you are transferring this money, it is actually benefitting the agency and the taxpayers. Because you're coming right now with a budget request, I want to see when you're diverting these funds, that it is accomplishing our goals on the tax gap?

Mr. RETTIG. We share your concerns for that.

Senator HYDE-SMITH. And in March, I sent you a letter urging the IRS to clear a large backlog of 2019 tax returns before the 2020 tax return deadline. Taxpayers continue to face financial uncertainty from the pandemic, as we well know, and this should not be compounded by the Federal Government's inability to return money lawfully owed to them.

Can you give me an update on what the IRS is doing to work through the backlog of cases that I wrote you a letter about?

Mr. RETTIG. As of yesterday, we have 335,000 tax returns that were filed during calendar year 2020 to work through. That's down from about 7 million, give or take, around the turn of the beginning of this year. We've put our people on mandatory overtime and weekends. We've pulled people back into shifts.

As I think people are pretty well aware, we got caught in a staffing issue, not of our own making. But, as we ask for funding, we got funded based on a normal year. And the volume of intake in terms of taxpayer contacts and otherwise is up about 300 percent.

We've done our best. That's what I was referring to when I talked about we've worked hard. We've tried to do our best. We've moved around resources. We've moved around filings. We've moved around the electronic filings at different campuses based on pandemic-related and staffing issues. It's been very difficult.

Senator HYDE-SMITH. Do you have an estimated time of how long it would take to finish up those 335,000 tax returns from last year?

Mr. RETTIG. Given the progress that we've seen and the numbers that we've seen, I'll give you a conservative estimate—then I can hear it when I get back to our office. Our people seem to just say that.

I cannot imagine looking at the curve, it's more than 60 days. I will get back to you with a more appropriate response on that, but I'm just going from the curve, from the volume we had and the volume we have today. It might be considerably less than that.

Senator HYDE-SMITH. But you do think 60 days may be a reasonable guess?

Mr. RETTIG. Oh, I do. I said it, and I believe it, but keep in mind this is for returns that were filed prior to January 1, 2021. They are the 2019—

Senator HYDE-SMITH. Correct.

Mr. RETTIG [continuing]. Returns.

Senator HYDE-SMITH. That's what I am—

Mr. RETTIG. And that is—

Senator Hyde-Smith [continuing]: Referring to.

Mr. RETTIG [continuing]. The number that I'm referring to.

Senator HYDE-SMITH. Yes.

Mr. RETTIG. And I should be able to get back to you today, on a better timeline than that.

Senator HYDE-SMITH. The IRS Criminal Division consists of very talented investigators who have broken up criminal enterprises across the country. I've read about them. Their targets include drug rings, human trafficking, money laundering, and sanction violations at some of the largest financial institutions. Criminals and tax dodgers, as we call them, continue to get more and more sophisticated, and yet I'm worried the Criminal Investigation division of your budget remains insignificant or insufficient, they're just getting smarter and smarter every day. Where does this division fit into your vision for greater expanding funding for enforcement activities?

Mr. RETTIG. In my mindset, IRS Criminal Investigation is one of the most important functions of the Internal Revenue Service. It is the law enforcement arm, of the Internal Revenue Service, that every individual who's thinking about a Title 26 violation should be concerned about. It is the one arm that makes referrals to the Department of Justice for prosecution, which leads to incarceration. We have a very close relationship with the Department of Justice.

If I may, increasing IRS funding without increasing funding for the Department of Justice—they're the recipients of our criminal cases. They represent us in district courts and bankruptcy courts. They need a similar increase in resources, or we're going to have a bottleneck as we move cases over to that side. But IRS CI, as you've indicated—we are not looking in any sense to ever reduce their resources. They've not only been significant for what I refer

to as traditional tax cases, but they've been significant in terrorism financing cases; they've been significant in a child exploitation case, the largest on the planet, operating in the dark net, using virtual currencies; and we are the only law enforcement agency that has Title 26 jurisdiction. We also have money-laundering jurisdiction. And inside our house, it's IRS CI and IRS CI Cyber Crimes that are really exceptional, and the individuals there are exceptional.

Senator HYDE-SMITH. The thing that concerns me the most is that the solution is always an increase, and that's very concerning for me, but my time is up. Thank you, Mr. Chairman.

Mr. RETTIG. Thank you.

Senator VAN HOLLEN. Thank you, Senator. And unless there are other Members right now, we're going to have another round, between myself and the Ranking Member, of questions, Mr. Commissioner, and I'm going to focus still on the enforcement piece and then a couple questions on the service end, and I—they are related, I think. So, in terms of enforcement, I agree with the Ranking Member. We do want to see enforcement dollars spent on enforcement. That's the only way we're going to address this huge tax gap: people who are not paying taxes that are owed and cheating the system and cheating the rest of the country.

Now in your testimony, you indicated that you were often outgunned. The IRS was often outgunned when it came to the expertise of tracking down some of these taxpayers. I'm assuming, based on that and our conversations earlier, you're talking about individuals who have the capability to hire sophisticated tax lawyers or people who can set up partnership structures that are very difficult to track. Is that the case? As, you know, Willie Sutton said, you know, "Go to where the money is." And when it comes to unpaid-but-due taxes, we want to go where the money is. And is that where it is?

Mr. RETTIG. Well, I'm also talking about the corporate arena. We have cases that involve large corporations, billions and billions of dollars of tax, and if you're a corporation and you had an \$8 billion tax bill, and you're litigating against the Internal Revenue Service, you're willing to spend maybe a billion dollars to save \$7 billion, and we operate on a \$12 billion budget, all across the Agency. And so they will put as many people as necessary on that, and a large expenditure of staffing on a large corporate case for us might be in the range of 15 to 20 to 30 staff, including Counsel Lawyers.

Senator VAN HOLLEN. So, Mr. Commissioner, let me ask you, in order to close this tax gap, do you need additional authorities to hire people who are particularly expert in some of the—in tax laws and some of the shenanigans people use?

Mr. RETTIG. We, and I, have already reached outside the Internal Revenue Service. I'm very respectful of the employees of the IRS and of giving them career opportunities. I came on board with that as one of my goals. I don't expect to leave that, but we are hopeful for a significant hiring at what I refer to as three different levels: college and graduate school folks, that's building the future for the Internal Revenue Service; mid-career folks, I would like to say is myself, but maybe who are 20 years younger than myself, who have a degree of experience that might be looking to come on board

for government experience for an amazing agency; and then folks closer to my age, who are at the end of their career, who include former IRS employees who want to come back and help.

I will say that in my outreach actions in the communities that I'm very familiar with, tax practitioner and taxpayer and others in the industry, we get a lot of people who express an interest to come on board. The mid-year and more senior folks are looking at it as a way of giving back to a country that gave them a lot, which is——

Senator VAN HOLLEN. Good.

Mr. RETTIG [continuing]. Exactly why I came on board.

Senator VAN HOLLEN. Thank you. So, you have the authorities you currently need for this purpose, right?

Mr. RETTIG. We have the authorities. We don't have the funding.

Senator VAN HOLLEN. Got it. That's—okay. The GAO reported that some third-party data on business income—so, we're talking K-1s—is provided to the IRS by financial institutions; however, the GAO also reported that that information is only matched manually as part of an audit. Is that because you do not have the technology to do so? The Inspector General of the Tax Administration identified over 314,000 business taxpayers with 335-plus billion in Form 1099-K income that appeared to have a filing obligation but were not identified as non-filers by the IRS. Can you speak to that issue?

Mr. RETTIG. It helps this country, to the extent the IRS has automated systems that can read information that we receive. That's significant. Getting more information sooner is better than getting information later.

If you recall, with respect to W-2s and electronic filing, there was a 3-year phase-in of a requirement for firms and entities to do the electronic filing. Would've helped us significantly if that was just put into play initially. Any delay in getting information to the IRS creates issues. To the extent we cannot automate a review of tax return-related information, it pushes us into an environment where we need to manually do that. An IRS employee needs to look at something, whether it's a computer screen or if something comes in paper form. An IRS employee needs to do that, and we don't have the employees to do that.

I will say that a change that we made when I came on board was rather than having no people in certain arenas, we put some people in every arena. If you've seen what we talk about, we talk about trying to be in every neighborhood. We cannot do an effective job everywhere, but we do have responsibilities to you and the people in this country to be in as many different areas as possible. We are trying.

Senator VAN HOLLEN. All right. Well, let me—I do want to turn to the issue the Ranking Member raised, as well, regarding the 2019 tax returns. I think all of us are hearing from constituents about that backlog, and we do recognize that you've taken extraordinary efforts during the pandemic to do all the other things Congress has asked you to do, but on that front, I want to make sure I understood you correctly when you said you thought it would be about 60 days before you could clear that backlog. Did I understand you correctly?



Mr. RETTIG. That's correct. That's the returns that came in in 2019. There's a separate issue that I believe you want to talk about, which would include the returns that are in suspension, where we've received information for some reason, and a return—other than being automatic filing and going to a refund within what's typically 21 days—gets pushed out, and we need manual review of that. In that scenario, there's about 6 million or so.

The majority of the returns that are in suspense are returns where we have taken a look at the return—and actually did that, automated, for electronically filed returns—and there's two huge issues, and I'm sure that the Taxpayer Advocate is probably going to address this, but two big issues. The change in the recent legislation giving EITC filers the ability to trigger the amount of their EITC off of 2019 income, as opposed to 2020, requires us to manually look at that, to verify the 2019 number. A significant amount of the returns in suspense are that.

Then another portion of those are returns where the Recovery Rebate, the EIP, became part of the return, the Recovery Rebate amount set forth on a return does not match our information, and that also requires a manual review. Then on EITC claims, there's a fairly significant amount that do not include a particular form that is required to be included.

So, essentially—and I'm giving you round numbers, but I can get you specific numbers on these for that group, we have sent out information to taxpayers, asking for a verification of some sort, and so they're in that process. It's not a situation we're happy to be in, particularly with respect to the EITC folks. These folks need their money. They need it quickly, and we take that to heart.

Senator VAN HOLLEN. I appreciate that.

Mr. RETTIG. We're—

Senator VAN HOLLEN. No, I think what—expediting it all—and my last question, at this point: Can you—I mean, can you open up returns and quickly determine whether it's a situation where the IRS owes somebody and prioritize those, so people can get their money, or do you do that already?

Mr. RETTIG. We do that already. We prioritize—

Senator VAN HOLLEN. So, you open all the envelopes, to see whether it's a case where the IRS is—

Mr. RETTIG. Once we open the envelopes, they get that priority. Keep in mind, we get about a million to a million and a half pieces of mail a week. We can stay current with that. We got back because we shut down our facilities, so the physical mail built up. We had to plow through that. But on the electronic side and on the paper side, we prioritize 2019 and 2020 refunds, and then we go into the rest—

Senator VAN HOLLEN. Thank you.

Mr. RETTIG [continuing]. As I think you would hope we would do.

Senator VAN HOLLEN. Yes. Thank you. Senator Hyde-Smith?

Senator HYDE-SMITH. Thank you. As I've already alluded to, over the past 14 months the IRS received more than \$3 billion in supplemental funding, in addition to what you had, yet the IRS has obligated less than one-third of this funding, and it's actually spent even less. Only 23 percent is what you've spent. How much do you

expect to spend during the remainder of the year, and how long will it take you to spend \$3.1 billion?

Mr. RETTIG. The funds we've received were 2-year funds, and I can get you the specifics as to where all of those funds have been received, and then the ones that are in suspense, what they are scheduled for, and I think I would appreciate the opportunity to do that and to get you that information. I hear and appreciate the concern, and I share the concern. We look at the funds as though they're our own. There's a lot of people involved in this, in terms of trying to do things appropriately, and I would like to get you the specific information, rather than me giving you generalities. I think that you deserve that.

Senator HYDE-SMITH. And, of the \$1 billion that has been designated for long-term IT that we've talked about, none of this \$1 billion has been spent, as of last week. Zero. None of it. Is that correct?

Mr. RETTIG. The actual expenditure versus the services I'm not sure are actually in line, but it has been entirely allocated in our planning on how to most effectively use these funds. We have schedules on that. We actually are in a situation where we need to look at some things that have come on the radar screen more recently. Child Tax Credit, for example, where we got funding, but I think you're aware, last year, with the EIPs, we certainly received funding, but we went at risk for the Advance Child Tax Credit, I think the number exceeds \$100 million, in order to carry out the mission, and we have to take a similar look at this because we need to do the activities before we actually might get supplemental funding on any of these. I can walk you through those, but the effort allocation, identification of where funds need to go—we have that, and I can provide that.

Senator HYDE-SMITH. And what I'm hearing from my constituents, as well, is the calls. And the IRS has only answered between 7 percent and 14 percent of taxpayer calls this year, depending on which metric you cite, and more than 30 million dollars in tax returns, or 30 million tax returns have not been processed. When you last testified before the subcommittee in 2019, the appropriate level for the IRS was \$11.3 billion. In 2021, the IRS has received \$14.3 billion, a \$3 billion increase in the span of 2 years. And again, most of your proposed solutions say that you need more spending, rather than instituting, and I would just like for you to respond to that.

Mr. RETTIG. Let me address your comments on the level of service. The level of service for us, the phone service, is an appropriated amount. Every 10 percent is approximately \$100 million. We put in a request 2 years ago—before there was a pandemic; before there was EIP 1, 2, or 3; before, you know, everything that we've all lived through in the last year—for a 75 percent level of service, which would've been about \$750 million.

We were appropriated for our phone service at 50 percent without taking into account the volume that we were going to receive. The volume of telephone calls we've received to date is about 151 million calls. Two years ago, that was less than 50 million calls.

We have 13,760 folks who answer the phones. They're our Customer Service Representatives. We got more recent funding to add 1,000 CSRs, so we have just under 15,000 CSRs answering phones.

The last thousand, it takes 12 to 14 weeks to train them. They did not come on board prior to February 15, which is the high-volume calls. That's the date, pursuant to the PATH Act, that we're able to issue refunds, and so we get a lot of calls right around that point in time.

It also ties into the fact that we extended this group through yesterday, which was the extended filing date, to remain on the phones for taxpayers. This is the same group that, once filing season ends, we pivot to help us in our Submission Processing, the paper processing of returns and whatnot.

So, it brought us down to, obviously, about 15,000 short of the submission processing helpers when we could've pivoted April 15th, that got—we delayed filing season, these folks stayed on the phones. There's a connection for how the resources that we had got appropriated or got allocated, and it's created situations across the board. In 2021, between automated calls and actual CSR calls—and we use both—we have answered 31 million calls. During 2020, the average time on a call is 19 minutes. The average time historically was 14 minutes.

People need to understand that we are the primary contact for most people, government contact, and with the exception of possibly VA or SSA, we're probably the only contact. Our employees who are front line on these phones are listening to pandemic life stories of people who are calling in. I have encouraged that, rather than have our people cut people off the phone and say, you know, "I've got to go. I've got calls backed up."

It's very important. We have people crying on the phone, not related to anything we're doing, just that we happen to be their contact person. It's been difficult for our employees, but when you think that we've increased the call time from 11 minutes last year to 19 minutes this year—we only have, you know, a little under 15,000 employees. We have 151 million phone calls coming in. At one time, we were receiving 1,500 phone calls per second, and I'm not sure any organization in the public or private sector would be able to provide the service that the people placing those calls deserve.

We really are trying our best within the constraints that we have, and we are working through this. We appreciate the patience, understanding of everyone, Members of Congress as well as taxpayers, and we are sensitive to trying to make it better. We are advancing. We're improving, but, some of the volume and the level of service numbers, when you consider that we shut down our system in March and our CSRs, only 3 percent of them were telework eligible in March of 2020. Now, 100 percent of them are telework eligible.

Where that becomes important—we had the recent snowstorms and weather shutdowns at some of our facilities. We didn't miss a beat. Our CSRs continued to answer the phones from home, rather than coming in. So, we've had some improvements, but I share your thoughts, your concerns, and for your constituents, as well. This has been extremely difficult. It's not without effort and desire on the part of our employees.

Senator HYDE-SMITH. Thank you.

Senator VAN HOLLEN. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman, and thank you for holding this really important hearing. I guess the problem that I have is that all of what you said is true, but we had all these problems before the pandemic. Part of the problem is, it's almost impossible to have face-to-face meetings with the IRS now, so everything is telephone. What percentage of the calls do you answer?

Mr. RETTIG. Like I said, there have been 151 million calls in calendar year 2021. Between automated and CSR, we've answered 31.3 million.

Senator BOOZMAN. So, what percentage is that? It's not very high. Do you still do the courtesy disconnects after people are on hold for a while?

Mr. RETTIG. People can hang up. We actually have——

Senator BOOZMAN. What——

Mr. RETTIG [continuing]. Callback, customer——

Senator BOOZMAN. How long does it take to——

Mr. RETTIG [continuing]. Callback.

Senator BOOZMAN. If you do answer the phone, how long does it take to actually—for a person to get with the—another person? What's the average wait time?

Mr. RETTIG. I don't have the average wait time. I'm sure the Taxpayer Advocate has the average wait time, but I don't have the average wait time.

Senator BOOZMAN. It's a long time.

Mr. RETTIG. It's a lot less than what we seem to read in the newspapers, but——

Senator BOOZMAN. No——

Mr. RETTIG [continuing]. Keep in mind the points I was making before, and it may have been, sir, before you came into the room. The amount of people we can put on the phone is a specific appropriated item. We get a certain amount of funding for a certain——

Senator BOOZMAN. No, I——

Mr. RETTIG [continuing]. Amount of bodies.

Senator BOOZMAN [continuing]. Understand. I understand totally, and I've been on this subcommittee for several years now, but it's the same story every year. I don't know why we would consider going after folks more until we get this problem straight. So, what you should be advocating is, let's fix this problem first, and then, in the future, once we do the job that we're doing regarding people that are having problems now, then it would be appropriate to go after additional folks.

We have situations all the time. We deal with this, and the Taxpayer Advocate does a tremendous job, but we're constantly referring them, people that have problems with the IRS, and then they have the problem, and they simply can't get through to have the problem adjudicated. I mean, nobody answers the phone. So, these are real things. It's not related to the pandemic. It was going on before the pandemic, and these are things that we simply have to deal with. It is true that—it is true, also, that I think it's, again, everything is switching to non-personal interviews and things, so that's another reason that you're having problems with the phones, is that there's simply nobody to talk to at the IRS.

Mr. RETTIG. What I am advocating, in terms of the tax gap, is not a single approach, a multi-faceted approach, which is service,

as well as enforcement. Enforcement supports the efforts of compliant taxpayers. We, the IRS, need to get timely understandable guidance out to people. We're very proud that during the pandemic, last year in September, we announced our multicultural language project, and I think you're aware that, for the first time in history, the Form 1040 is in English and Spanish. People can fill out a Schedule LEP and check one of 20 boxes of different languages they would like us to interact with them in writing. Our call centers, now have translation services in more than 350 different languages. We are highly cited on the underserved communities, which I also include as visually impaired, hearing impaired, folks in rural communities. We have lost Taxpayer Assistance Centers in many of the rural communities as a result of attrition. We had to flip to having our other taxpayer assistance folks ride a circuit, essentially: you know, come into town on a Tuesday and things. We've tried to do what we can do. We've had very significant difficulty hiring in certain areas where some of our employees have retired, and, you know, we're—a statistic I gave earlier—our net attrition rate, over the next 6 years, for an organization of about 83,000 employees, we have about 52,000 employees who are no longer going to be employed. And when I say "net," that's the real figure, because the average statistic is that an employee stays 5 years beyond the time, they're eligible, so it's the net that I'm referring to. We need to replace that. That's just to maintain status quo. And our target level of service is in the 60 percent range, and there's history in the 60 percent range, but when the phone call volume goes from 46 to 50 million up to 151 million, coming on the heels of having shut down the agency, we will not—when you build in the denominator of the fraction that you're referring to, we will not make 60 percent. And I am with you. I was on the outside.

Senator BOOZMAN. I understand.

Mr. RETTIG. People here deserve—

Senator BOOZMAN. I understand.

Mr. RETTIG [continuing]. A 60 to 80 percent.

Senator BOOZMAN. But if you go back a year ago, before COVID, you weren't anywhere close to that, then. I appreciate the fact that you are sending out in Spanish and doing those things. Those are things we can do. The tax code is very, very complicated, and it's really difficult once you get that in whatever language. If you've got a question, there's simply nobody to go and see to get the question answered, in person, and then again, you know, you try and make the phone call, now and in the past, there's nobody to answer. You have an action against somebody. They try and contact the IRS, and it's difficult for them to get through while they're trying to get the action cleared up. So—and don't misunderstand. I'm not—

Mr. RETTIG. No, I appreciate it.

Senator BOOZMAN. I'm not saying you or the personnel—in fact, just the opposite. In us dealing with the IRS, they've been very responsive. The taxpayer advocates do a great job. And then again, just the personnel at the IRS, you know, do a great job. You know, I mean, these are caring individuals that are—that—it's just the system, the way it is now, it's kind of a Catch-22 for all of us. So, what I'm interested in doing is I hope we can work together, I hope the committee, in a very bipartisan way—and this has been a bi-

partisan, you know, through the years—can work with you to really kind of clean up some problems that are just kind of part of the system. So, again, like I said, don't misunderstand. I'm not attacking you. I'm attacking the system. But we've got ourselves in a situation now where we've got a very complicated tax code. We do have enforcement going on now, but it gets really difficult, so we—

Mr. RETTIG. And I, and we—myself, our staff—would appreciate the opportunity. This is well beyond what we can exchange the information in an 8-minute exchange. We really want you to understand the situation that we're in, with detail, with, information.

Senator BOOZMAN. I appreciate it.

Mr. RETTIG. We can all get better at this. I didn't come on board to be defensive, and I hope I don't sound defensive. I came on board to make a difference for the taxpayers in this country, tax professionals in this country, and the employees of the IRS, and everybody. I believe that we can get this better. Tax administration is the responsibility of everyone, not just the IRS.

Senator BOOZMAN. All right. Thank you, Mr. Chairman.

Senator VAN HOLLEN. Well, thank you, Senator. And I do think we have bipartisan agreement on the need to provide the resources necessary to provide the service, need to get that up, and on compliance and enforcement, and look forward to working with the Ranking Member and all the members of the committee on that. Mr. Commissioner, thank you for your testimony and your service. And if you could convey our appreciation to your employees who have been working through these difficult times. Thank you.

Mr. RETTIG. I appreciate it. Appreciate your time, and I am available for meetings with you or with your staff, as well as my staff. We do want you to understand the situation we're in, and we think, working together, we can get this right. I share your concerns with respect to the enforcement. I'm focused on the enforcement. I'm not necessarily the operation support back-room guy. We need to make a difference, and we need to make a difference in taxpayer service. Those two go hand in hand. And with your help, I do believe that we can.

Senator VAN HOLLEN. Thank you, Mr. Commissioner. Next, we're going to turn to our other two distinguished witnesses. Ms. Collins is the head of Taxpayer Advocate Service, which is an independent organization at the IRS. She joined the Taxpayer Advocate Service in March 2020. She has more than 35 years of experience in tax law, including 15 years at the IRS Office of General Counsel and with a private accounting firm.

Mr. Rossotti served as the Commissioner of the IRS from 1997 to 2002. He earned his A.B. from Georgetown University and his M.B.A. from Harvard Business School. In 1970, Mr. Rossotti founded American Management Systems and served with AMS until his confirmation as Commissioner in 1997. Thank both of you for being here, and we will begin, Ms. Collins, with you.

**STATEMENT OF ERIN M. COLLINS, NATIONAL TAXPAYER ADVOCATE,  
INTERNAL REVENUE SERVICE**

Ms. COLLINS. Thank you. Mr. Chairman, Ranking Member Hyde-Smith, and Members of the subcommittee: Thank you for inviting

me to testify today about taxpayer service. In 1998, Congress created my position, the National Taxpayer Advocate, together with the office I lead, Taxpayer Advocate Service, or affectionately referred to as TAS, to be the office of and the voice of taxpayers within the IRS, to advocate for and assist taxpayers facing IRS problems and to make recommendations to the IRS and Congress for change.

First, I want to take this opportunity to thank and recognize our TAS team for their efforts assisting taxpayers during this difficult time. This past year, our local taxpayer advocates have helped over 230,000 taxpayers and their families. Our centralized case intake advocates have assisted more than 33,000 taxpayers, and currently we have over 68,000 open cases. At the same time, our systemic advocacy employees have advocated for taxpayers on multiple issues throughout the year, impacting millions of taxpayers. I'm proud of what all of our TAS employees have been able to accomplish, and although, like the IRS, we still are facing challenges with high call volumes and increased case number. I also want to give a quick shout-out to our low-income tax clinics and Taxpayer Advocacy Panel. Together with the VITA and TCE volunteers, they provide an essential service for taxpayers and tax administration.

Although this hearing addresses narrowing the tax gap, which is an admirable pursuit by Congress and the IRS, my testimony will focus on the filing season, improving taxpayer service, and protecting taxpayer rights, and ensuring a fair and just tax system that individuals have confidence in and can trust. And I appreciate your recognition that service is paramount to a good tax administration.

On a positive note, I do want to commend IRS leadership and its employees for what they did accomplish this past filing season. As of last week, the IRS had processed over 116 million tax returns. They issued over 85 million refunds of about \$243 billion and issued three rounds of stimulus payments over the last year, most without a problem. And then, as the Commissioner indicated, on May 17th they received a record number of filed returns, on the last day, of over 15 million returns.

At the same time, the combination of office closures required by the pandemic, additional responsibilities to administer the stimulus and other relief programs, late legislative changes, the challenges in processing paper returns, and the reduced staffing has combined together to make this the IRS's most challenging filing season probably in my memory, if not history. As of this writing, the IRS is still trying to struggle and manually processing more than 30 million individual and business tax returns. Most taxpayers who are entitled to refunds—they check the IRS tool “Where’s My Refund?” but unfortunately it provides little information for those backlogged, unprocessed, or suspended returns, so taxpayers take to calling the IRS, which results in more calls and lower level of service than any prior year.

At the height of the filing season, the IRS has experienced record-breaking, unprecedented calls and have received approximately, as the Commissioner just noted, 1,500 calls per second. I mean, think of that: 1,500 calls per second, which is a tremendous increase. And I think at one time during the filing season, their

1040 toll-free line—unfortunately, the level of service reached a low of about 5 percent. Although there is no quick fix to eliminate the challenge currently facing taxpayers, my written statement I offer some recommendations to improve taxpayer experience and enhance taxpayer administration during the filing season, especially for those able to file electronically.

My first recommendation is for Congress. The IRS needs more resources of helping taxpayers, collecting revenue, and providing those social programs such as the stimulus payments and the annual credit. By providing additional funding and oversight, we can improve IRS capabilities by providing taxpayers better service while protecting their rights.

Second, the IRS must prioritize an accessible, robust, and functional online account for practitioners and taxpayers. This should not be a luxury. This should be a standard tool the IRS provides all taxpayers.

Third, expand customer calling-back technology for all IRS toll-free lines and keep moving forward with other technological options under development. Fourth, reduce the barriers for e-filing tax returns. Fifth, for future paper returns that are prepared electronically but submitted through the mail, IRS should utilize technology for more accurate, quicker, and cheaper processing.

Six, expand and make permanent the digital acceptance and electronic transmission of documents and digital signatures, what you all do every day: use of email, uploading, and downloading documents in a secure environment. And the last recommendation is to consider to offer video conferencing options to taxpayers, even as IRS facilities begin to open.

So, in closing, taxpayer service must continue to improve. Our citizens deserve a responsive and respectful tax administration that serves all taxpayers fairly. Closing the tax gap should not result in reduced taxpayer service or undermine any taxpayer rights. To the contrary, voluntary compliance should be rewarded and not a victim of increased enforcement. And I believe the Congress and the IRS share that goal of ensuring that the efforts to narrow the tax gap are consistent with taxpayers' fundamental rights and to encourage a fair and just tax system.

So, thank you for inviting me here today. I look forward to continue working with the IRS and Congress to help improve taxpayer service, and I'll be happy to answer questions.

[The statement follows:]

PREPARED STATEMENT OF ERIN M. COLLINS, NATIONAL TAXPAYER ADVOCATE

INTERNAL REVENUE SERVICE: NARROWING THE TAX GAP AND IMPROVING TAXPAYER SERVICES

Chairman Van Hollen, Ranking Member Hyde-Smith, and distinguished Members of this subcommittee:

Thank you for inviting me to testify about taxpayer service issues at today's hearing titled *Internal Revenue Service: Narrowing the Tax Gap and Improving Taxpayer Services*.<sup>1</sup>

<sup>1</sup>The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested



Although this hearing also addresses narrowing the tax gap, my testimony will focus on improving taxpayer service, protecting taxpayer rights, and ensuring a fair and just tax system for all taxpayers.

Over the past year, taxpayer service at the IRS has been historically poor. There is no way to sugarcoat it. Refund delays have been long, telephone assistance has been poor, and taxpayers have not been receiving help with refunds, stimulus payments, or the information they need to be compliant. At the same time, IRS statistics show taxpayers with incomes below \$50,000 fail to respond to proposed adjustments in correspondence audits 45 percent of the time.<sup>2</sup> These non-responses, known as “defaults,” result in the issuance of statutory notices of deficiency, requiring taxpayers to file petitions in the U.S. Tax Court or be assessed the deficiency and left to deal with collection issues. This high rate of default makes me ask: What is wrong with this system?

Today, most taxpayers are focused on the challenges associated with the current filing season. Even with IRS employees working long hours and IRS leadership making efforts to move resources around, the IRS has struggled to handle a backlog of about 30 million individual and business income tax returns requiring manual processing for most of the filing season, including several million 2019 returns that were filed in 2020. Most taxpayers receive refunds, so when the IRS falls behind in processing returns, refunds are delayed. This year’s delays are unprecedented.

Even as Congress and the IRS focus on the tax gap, we cannot overlook the importance of improving taxpayer service, protecting taxpayer rights, and ensuring the IRS receives sufficient funding to achieve these critical goals. In 2015, then-Commissioner Koskinen termed the IRS’s customer service “abysmal.”<sup>3</sup> Yet during the 2015 filing season, return processing delays were minimal, the telephone “Level of Service” during the filing season was 37 percent, and 15 percent of callers reached an IRS telephone assistant.<sup>4</sup> If 2015 was “abysmal,” I am not sure the English language has a strong enough word to describe the delays and challenges taxpayers experienced this recent filing season.

When taxpayers did not receive timely refunds, many checked the IRS’s *Where’s My Refund?* online tool or *IRS2Go* app to find out why. But most of the backlogged returns had not reached a stage in the processing pipeline where information was available through *Where’s My Refund?* or *IRS2Go*. Largely for that reason but also for others, frustrated taxpayers are calling the IRS for help and information. The IRS had received more telephone calls by the end of April 2021 than it had ever received in a full fiscal year.<sup>5</sup> Although IRS employees have answered more calls than last year, they have not been able to manage the flood of calls. Through May 1, the IRS reported a “Level of Service” on its Accounts Management telephone lines of 14 percent, with only 7 percent of taxpayer calls reaching a telephone assistant.<sup>6</sup> The most frequently called toll-free number is the “1040” line for individual income tax services. It has logged about 82 million calls, and only 2.6 percent of callers have reached a customer service representative (one out of 38).<sup>7</sup>

Despite the recent challenges, I try to focus on the positive, so I want to emphasize and acknowledge the following points:

- Most taxpayers this filing season experienced no problems. More than 90 percent of taxpayers filed their returns electronically, and most received their refunds within 21 days—many in under a week. Through April 30, the IRS had

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from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. We have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

<sup>2</sup>The non-response rate includes taxpayers with undelivered IRS audit notices or statutory notices of deficiency and taxpayers who did not respond to IRS audit notices.

<sup>3</sup>Remarks of Commissioner John A. Koskinen Before the National Press Club (Mar. 31, 2015) (cited in Kevin McCoy, Report: *IRS taxpayer service goes from bad to terrible*, USA TODAY (July 15, 2015), <https://www.usatoday.com/story/money/2015/07/15/irs-taxpayer-service-2015/30181465>).

<sup>4</sup>IRS, Joint Operations Center (JOC) Snapshot Reports, Accounts Management (week ending Apr. 18, 2015).

<sup>5</sup>Until this year, the IRS had received its highest number of telephone calls in fiscal year (FY) 2008 when it logged about 167 million net attempts. As of May 1—with 5 months still left in fiscal year 2021—the IRS had received 177 million calls. IRS, JOC Snapshot Reports, Enterprise Total (comparing fiscal year ending Sept. 30, 2008, with week ending May 1, 2021).

<sup>6</sup>IRS, JOC Snapshot Reports, Accounts Management (week ending May 1, 2021).

<sup>7</sup>IRS, JOC Snapshot Reports, Product Line Detail: Individual Income Tax Services (week ending May 1, 2021).

processed 110 million returns and issued 81 million refunds, totaling about \$233 billion, without a hitch.<sup>8</sup>

- Congress authorized three rounds of stimulus payments and most eligible individuals received their stimulus payments without problem. Taken together, the IRS has issued more than 470 million payments totaling about \$800 billion.<sup>9</sup>
- The primary cause of the processing backlogs and phone challenges was the COVID-19 pandemic. This was literally a once-in-a-century occurrence that caught most individuals, businesses, and government agencies off guard and presented challenges that could not easily be overcome. However, most taxpayers do not understand the reasons for the delays, causing frustration, stress and, for many, financial harm. Secondary causes of the IRS's problems are the reduction in the IRS workforce over the past decade and congressional directives to issue stimulus payments and provide other financial relief to mitigate the impact of the pandemic, which substantially increased the IRS's workload and the strain on its employees.
- To reduce taxpayer burden, the IRS provided almost complete relief from enforcement actions during the early part of the pandemic. Under its "People First Initiative,"<sup>10</sup> it suspended most collection activities, including the filing of notices of Federal tax lien, the issuance of summons, and levies, suits, and seizure actions. It granted extensions to respond to Collection Due Process notices and appeals of adverse offer in compromise and Collection Appeal Program decisions. It suspended installment agreement and offer in compromise payment requirements. Significant relief was provided with the Taxpayer Relief Initiative, including expanded installment agreement options and additional flexibilities for taxpayers to pay accepted offers in compromise.<sup>11</sup>
- Over the long run, the lessons learned from the pandemic are valuable in helping to identify needs for improved tax administration. The pandemic exposed weaknesses and vulnerabilities that can be strengthened, it prompted the IRS to experiment with new approaches to old problems, it led to a renewed awareness of the impact of cuts to the IRS's budget over the past decade and its need for additional funding, and it is causing the IRS and congressional overseers to collaborate on steps to improve the IRS's performance going forward.
- The IRS workforce deserves enormous praise for its work over the past year. Like all Americans, IRS employees have faced personal challenges, including childcare challenges, financial challenges for individuals out of work, and the mental health challenges of being cooped up in a house or an apartment for the year. Throughout the year, some employees worked in IRS facilities at personal risk, and unfortunately, some contracted COVID-19.

I also want to note that I could not be prouder of the employees in my own function, the Taxpayer Advocate Service, for their efforts during the past year assisting taxpayers during this difficult time. Although this year has been and continues to be challenging for many taxpayers, it is important for the public to understand the problems in tax administration over the past year have been situational and would have been worse if not for the hard work and commitment of the employees and leadership of the IRS.

In this statement, I will describe some of the challenges taxpayers have experienced during the filing season and offer my priority recommendations to improve the experience of U.S. taxpayers in their dealings with the IRS while trying to comply with their tax return filing obligations.

<sup>8</sup>IRS, 2021 Filing Season Statistics (week ending Apr. 30, 2021), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-30-2021>.

<sup>9</sup>The IRS reports it issued 160 million payments worth \$270 billion under the Coronavirus Aid, Relief, and Economic Security (CARES) Act; 147 million payments worth \$142 billion under the COVID-related Tax Relief Act of 2020; and 164 million payments worth \$386 billion under the American Rescue Plan Act of 2021. See IRS News Release, IR-2021-38, As required by law, all first and second Economic Impact Payments issued; eligible people can claim Recovery Rebate Credit (Feb. 16, 2021), <https://www.irs.gov/newsroom/as-required-by-law-all-first-and-second-economic-impact-payments-issued-eligible-people-can-claim-recovery-rebate-credit>; IRS News Release, IR-2021-103, More than 1.1 million additional Economic Impact Payments disbursed under the American Rescue Plan; payments total approximately 164 million (May 5, 2021), <https://www.irs.gov/newsroom/more-than-1-point-1-million-additional-economic-impact-payments-disbursed-under-the-american-rescue-plan-payments-total-approximately-164-million>.

<sup>10</sup>See IRS, People First Initiative—Providing Relief to Taxpayers, <https://www.irs.gov/newsroom/people-first-initiative-providing-relief-to-taxpayers>.

<sup>11</sup>See IRS, Taxpayer Relief Initiative aims to help those financially affected by COVID-19 (updated Apr. 15, 2021), <https://www.irs.gov/newsroom/taxpayer-relief-initiative-aims-to-help-those-financially-affected-by-covid-19>.

I. TAXPAYERS ARE EXPERIENCING SIGNIFICANT CHALLENGES IN THEIR DEALINGS WITH THE IRS DUE TO THE IMPACTS OF THE PANDEMIC AND WORKFORCE REDUCTIONS ON IRS OPERATIONS

Between fiscal years 2010 and 2019, the IRS budget was cut by 20.4 percent after adjusting for inflation, and IRS staffing was reduced by 22 percent—from 94,711 to 73,554 full-time equivalent (FTE) positions.<sup>12</sup> When COVID-19 began to spread in March 2020, the IRS—like many entities in the United States and around the world—was forced to shut down many of its core operations to comply with social distancing requirements to protect the health and safety of its employees, taxpayers, and our local communities.

In March 2020, December 2020, and March 2021, Congress directed and entrusted the IRS with the responsibility to administer critical programs designed to provide financial relief to struggling families and individuals and to boost the U.S. economy generally.<sup>13</sup> While the pandemic-induced shutdowns had the largest impact on IRS operations, the combination of the shutdowns, the addition of three rounds of stimulus payments, the responsibilities of implementing new legislation, and a decade of reduced staffing have created a perfect storm, leading to an extraordinary imbalance between the IRS's workload and the resources available to manage it for its annual filing season.

The two most significant consequences have been a huge backlog in the manual processing of tax returns and an inability to keep up with the unprecedented volume of taxpayer telephone calls the IRS has received.

A. *The IRS has struggled with a backlog of about 30 million individual and business income tax returns that require manual processing*

The IRS has a backlog of about 30 million individual and business income tax returns that require manual processing—meaning that employee involvement is generally required before a return can advance to the next stage in the processing pipeline. Unprocessed paper tax returns account for almost half the backlog. Returns suspended during processing, meaning returns set aside because of issues that require additional review, account for just over half.

These processing backlogs matter greatly because most taxpayers overpay their tax during the year and are entitled to receive refunds when they file their returns. In addition to repaying overpayments of tax, refunds may include Earned Income Tax Credit (EITC) benefits that can be worth up to \$6,660,<sup>14</sup> Additional Child Tax Credit benefits that can be worth up to \$1,400 per qualifying child<sup>15</sup> and, this year, Recovery Rebate Credits (RRCs).<sup>16</sup> The IRS's backlog of 30 million income tax returns means that most individual taxpayers in this group and many business taxpayers will not receive their refunds until the IRS eventually processes their returns.

After the pandemic forced IRS office closures last March, the IRS over time was able to make a significant amount of its work portable, and it instructed its field examination and collection employees to postpone the start of examinations, liens, and levies. Most employees could perform their jobs from home. To protect the confidentiality and security of tax return information, however, the IRS could not allow employees who open and enter data from paper tax returns to take them home, requiring employees to work in the IRS campuses and only when necessary gather information from local offices.

The IRS received approximately 17 million individual income tax returns<sup>17</sup> and an estimated 50 million other tax returns on paper last year,<sup>18</sup> in addition to more

<sup>12</sup> Budget data provided by the IRS Office of Chief Financial Officer (Oct. 2, 2019). FTE data published in IRS, 2019 Data Book 74, Table 31: Collections, Costs, Personnel, and U.S. Population, fiscal years 1990–2019 (2020), <https://www.irs.gov/pub/irs-pdf/p55b.pdf>.

<sup>13</sup> See CARES Act, Public Law No. 116–136, 134 Stat. 281 (2020); COVID-related Tax Relief Act of 2020, enacted in Division N of Title II of the Consolidated Appropriations Act, 2021, Public Law No. 116–260, 134 Stat. 1182, 1965–71 (2020); and American Rescue Plan Act of 2021 (ARPA), Public Law No. 117–2, 135 Stat. 4 (2021).

<sup>14</sup> See IRC § 32.

<sup>15</sup> See IRC § 24(d)(1).

<sup>16</sup> See IRC §§ 6428, 6428A.

<sup>17</sup> IRS, 2020 Filing Season Statistics (week ending Dec. 11, 2020), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-11-2020> (reporting that 152.8 million of 169.7 million individual income tax returns received had been filed electronically).

<sup>18</sup> IRS Pub. 6186, Calendar Year Projections for the United States and IRS Campuses: 2027–2027 (2020 Update) 7, Table 2 (Nov. 2020), <https://www.irs.gov/pub/irs-pdf/p6186.pdf>.

than 13 million pieces of correspondence.<sup>19</sup> The shutdown of processing operations meant these returns and letters sat unopened on trucks for months. When IRS employees slowly returned to their jobs, the backlogs were overwhelming.

As of May 1, the IRS has a backlog of about 12.9 million paper tax returns waiting to be processed. The backlog includes 2.5 million tax returns received in 2020 and 10.4 million returns received in 2021. They are split about evenly between individual returns and business returns.

In addition, there is a second group of about 15.1 million returns suspended during processing. These returns generally require employee review to verify the legitimacy of some aspect of the return. There are also about 2.5 million amended returns awaiting processing.

The breakdown of the processing backlog is as follows:

FIGURE 1: STATUS OF INVENTORY REQUIRING MANUAL PROCESSING (AS OF MAY 1, 2021)<sup>20</sup>

	Individual	Business	Not Specified	Total
Paper Returns Awaiting Processing				
Calendar Year 2020 .....	1,000,000	1,500,000	.....	2,500,000
Calendar Year 2021 .....	4,900,000	3,700,000	1,800,000	10,400,000
Total Paper Returns Awaiting Processing .....	5,900,000	5,200,000	1,800,000	12,900,000
Paper and Electronic Returns—Processing Suspended .....	13,200,000	1,900,000	.....	15,100,000
Amended Returns Inventory .....	1,900,000	500,000	.....	2,500,000
Total Unprocessed Returns .....	21,000,000	7,600,000	1,800,000	30,500,000

<sup>20</sup> Data from IRS systems and Wage & Investment Division. Totals are not necessarily exact due to rounding.

The returns suspended during processing consist mostly of e-filed returns but include some paper returns. The bulk of the suspended returns have been sent to the IRS's "Error Resolution System" (ERS) for review. This year, the issues that have caused the largest number of returns to be sent to ERS have been RRC claims that do not match IRS records and taxpayer elections to use 2019 incomes rather than 2020 incomes to compute the EITC. To date, more than four million returns contained RRC errors. These have included dependents listed on multiple returns, missing or invalid Social Security numbers or Individual Taxpayer Identification Numbers without a military indicator, individuals who were deceased prior to the tax period, dependents who exceeded the age limitation, and RRC amounts computed incorrectly.

Beside ERS cases, returns may be suspended if identity theft is suspected (*e.g.*, if a return comes in with a missing or incorrect Identity Protection Personal Identification Number), if a return is rejected for processing (*e.g.*, if a schedule or required signature on a paper return is missing), or if a return is classified as "unpostable" (*e.g.*, if the IRS has a date of death on file that precedes the current tax year).

Now that the filing season has ended, the good news is that the stream of new returns entering the processing pipeline will slow dramatically, at least until we approach the extended filing deadline of October 15. The bad news is that it will take considerable time for IRS employees to work through the backlog of about 30 million individual and business income tax returns. Commissioner Rettig recently testified that the IRS anticipates completing the processing of the backlog sometime this summer. But it is a heavy lift to accomplish this high volume of manual reviews. Moreover, even with a possible summer completion date, taxpayers will continue to be frustrated and, in some cases, will experience financial hardships because they will not receive the refunds to which they are entitled until the processing of their returns is complete.

#### *B. IRS telephone service this year has been historically poor*

The IRS received more telephone calls during this year's filing season than it has ever received in a previous filing season. Taxpayers whose returns are caught up in processing backlogs called, and I suspect many called multiple times, trying to get an answer and to understand the reason for the delays and what, if anything, they need to do. Taxpayers who did not receive their stimulus payments when they expected also called, and most likely called often. The IRS received more than 150

<sup>19</sup> IRS, Customer Account Services Accounts Management Paper Inventory Reports, Receipt Comparison Report (fiscal year 2020).

million calls during the filing season (through May 1). Employees answered 13.3 million—just nine percent.

The IRS staffs dozens of telephone lines, and some fared better than others. About 90 percent of calls came in on lines that fit under the “Accounts Management” umbrella. On those lines, fewer than 7 percent of taxpayers reached a telephone assistant. The largest Accounts Management line is the “1040” number. The IRS received about 82 million calls on the 1040 number, and only about 2.6 percent of callers got through to an employee (one out of 38).<sup>21</sup>

By contrast, the IRS did a better job answering calls from taxpayers to whom it had sent notices. For example, about five million taxpayers called the Automated Collection System toll-free lines, and employees answered about 40 percent of their calls.

Because the IRS toll-free telephone lines were shut down and then slowly reopened during 2020, a comparison of the current filing season with the 2019 filing season will provide better context. Overall, the IRS has received more than three times as many calls this year. It has answered slightly more calls, but it could not keep pace with the volume. Figure 2 compares telephone service in the current filing season with the 2019 filing season.

FIGURE 2: IRS TELEPHONE RESULTS (2021 AND 2019 FILING SEASONS)<sup>22</sup>

	Calls Received	Primary Abandons	Calls Not Directed to CSRs <sup>23</sup>	Calls Directed to CSRs	Calls Answered by CSRs	% of Calls Answered by CSRs	“CSR Level of Service”	Time on Hold (in minutes)
Enterprise 2021 .....	151 mil	48 mil	28 mil	75 mil	13 mil	9%	18%	20
Enterprise 2019 .....	46 mil	12 mil	14 mil	20 mil	11 mil	25%	59%	14
Accounts Management 2021 ...	137 mil	46 mil	26 mil	65 mil	9 mil	7%	14%	19
Accounts Management 2019 ...	38 mil	11 mil	13 mil	14 mil	9 mil	24%	67%	9
1040 Line 2021 .....	82 mil	35 mil	9 mil	38 mil	2 mil	2.6%	5.6%	20
1040 Line 2019 .....	8 mil	4 mil	0 mil	0 mil	2 mil	27%	67%	9
Automated Collection System								
2021 .....	5 mil	0 mil	0 mil	5 mil	2 mil	40%	43%	22
Automated Collection System								
2019 .....	4 mil	0 mil	0 mil	4 mil	1 mil	30%	33%	41

<sup>22</sup> Data for 2021 is through May 1 and data for 2019 is through May 4 and has been rounded to the nearest million (mil). “Primary abandons” reflect taxpayer hang-ups before they respond to all prompts presented by the phone tree—typically within the first five minutes of a call. “Percentage of Calls Answered by CSRs” reflects the number of calls answered by CSRs divided by the number of calls received. “CSR Level of Service” is an IRS performance measure that reflects the number of calls answered by CSRs divided by the number of calls directed to CSRs (i.e., it excludes primary abandons, taxpayers who encounter busy signals or are disconnected, and calls routed for automated responses).

As Figure 2 shows, the challenges taxpayers have experienced while navigating this difficult filing season show up in the surge of calls the IRS has received. Because the IRS does not yet offer robust online accounts and mail processing is significantly delayed, the toll-free lines remain the best or only option for most taxpayers who need to communicate with the IRS or are seeking answers regarding delays in their refunds or stimulus payments.

While there are no magic bullets to improve telephone service this year, it is anticipated that the volume of calls will decrease now that the filing season has ended and substantially all of the third round of stimulus payments have been issued. However, with the much-anticipated start of Advance Child Tax Credit payments in July and the opening of the associated portal, I have concerns about the likely increase in calls from affected taxpayers searching for advice and answers. I strongly recommend the IRS provide complete guidance on its website and through its outreach programs. I further recommend the IRS leverage its many partnerships with tax organizations, particularly those in underserved communities, and even encourage Members of Congress to provide relevant information on their webpages. I would also remind taxpayers of the standard advice the IRS provides: Call early or call late—the IRS toll-free lines are open Monday through Friday from 7 a.m. to 7 p.m. in each time zone—and it’s best to call midweek. Even so, there is no guarantee that taxpayers will be successful in reaching a customer service representative or that wait times will not be long.

<sup>21</sup> IRS, JOC Snapshot Reports, Product Line Detail: Individual Income Tax Services (week ending May 1, 2021).

*C. Taxpayers have faced an array of other challenges this filing season*

While the processing backlog and phone service difficulties have affected the largest number of taxpayers, numerous other challenges have arisen. A few examples:

—*Additional effects of unprocessed tax year (TY) 2019 individual income tax returns.*—The adverse impact of the IRS's failure to process TY 2019 paper tax returns extends beyond refund delays. Taxpayers seeking to e-file their TY 2020 tax returns generally must verify their identities by providing either (i) their TY 2019 adjusted gross income (AGI) or (ii) a prior year Self-Select PIN. If a taxpayer used the same commercial software to prepare the prior year return, the software will typically populate the prior-year AGI. Otherwise, taxpayers enter the information themselves.<sup>24</sup> The AGI amount the taxpayer enters must match the AGI amount reflected on the IRS's systems.

Where the IRS has not processed a TY 2019 return, a taxpayer entering his or her TY 2019 AGI will be prevented from e-filing a TY 2020 return. Although the IRS provided guidance that taxpayers with unprocessed returns could enter "0" as their TY 2019 AGI, many practitioners and taxpayers were unaware of the guidance and ended up filing TY 2020 paper returns. The processing of paper returns will take considerably longer. Similarly, mortgage and other lenders generally require applicants to supply prior-year tax returns to evaluate their creditworthiness. We understand some taxpayers whose TY 2019 returns have not yet been processed have encountered difficulties qualifying for mortgages and other needed loans.

—*Effects of mid-filing season change to Advance Premium Tax Credit repayment requirement.*—Taxpayers with household incomes between 100 percent and 400 percent of the Federal Poverty Level are entitled to receive tax credits if they purchase health insurance through a Federal or State Health Insurance Marketplace.<sup>25</sup> Eligible taxpayers may choose to receive these "advance premium tax credits" in monthly installments paid directly to the taxpayer's insurance provider. At the end of the year, taxpayers are required to "reconcile" the amount of advance premium tax credits they received with the amounts to which they are ultimately entitled, as computed on their tax returns. Taxpayers who received a larger advance credit than the allowable amount generally must pay back the excess. ARPA suspended the repayment requirement for TY 2020. However, the Act was signed into law on March 17—after almost half of all taxpayers had filed their returns. Therefore, some taxpayers had already filed returns including a repayment of excess credit amounts. This has caused confusion and concern for taxpayers. The good news is that the IRS will automatically reimburse taxpayers who have already made a repayment.<sup>26</sup>

—*Effects of mid-filing season change to taxation of unemployment insurance benefits.*—Unemployment insurance benefits are generally taxable, as they are viewed as a replacement for wages. ARPA contained a provision that excludes up to \$10,200 in benefits from fiscal year 2020 taxation (\$20,400 for joint filers when each receives benefits) if the taxpayer's modified AGI is less than \$150,000. Clearly, this was a welcome change for millions of taxpayers who otherwise would have had a larger tax bill due to their increased unemployment benefits. As with the advance premium tax credit repayment relief provision, however, this relief was not enacted until March 17.

Understandably, this change caused confusion and concern that potentially 10 million taxpayers or more might have to file amended tax returns to claim the exclusion. Fortunately, the IRS has been able to program its systems to recalculate the AGI, reducing the tax due or increasing the refund owed to taxpayers in most cases. The IRS anticipates it will begin issuing refunds of overpayments by the end of May and will continue until all payments are made.<sup>27</sup>

If the IRS has the taxpayer's banking information, the overpayment will be made by direct deposit. This will expedite the additional refunds and is notable because IRS systems historically have been programmed to make subsequent refund payments via check. In rare circumstances, the reduction in income may make a taxpayer eligible for a credit that was not claimed on the filed tax return. Any taxpayer who falls into this bucket must file an amended tax return

<sup>24</sup> IRS, Validating Your Electronically Filed Tax Return, <https://www.irs.gov/individuals/electronic-filing-pin-request> (last visited May 12, 2021).

<sup>25</sup> See IRC § 36B.

<sup>26</sup> See IRS News Release, IR-2021-106, IRS offers overview of tax provisions in American Rescue Plan; retroactive tax benefits help many people now preparing 2020 returns (May 11, 2021), <https://www.irs.gov/newsroom/irs-offers-overview-of-tax-provisions-in-american-rescue-plan-retroactive-tax-benefits-help-many-people-now-preparing-2020-returns>.

<sup>27</sup> *Id.*

to claim the credit except for the childless worker EITC, for which the IRS has said an election will be made on the taxpayer's behalf.<sup>28</sup>

—*Potential impact of unemployment insurance fraud on victims.*—Sadly, when Congress authorized higher unemployment insurance benefits as part of the CARES Act, fraud “exploded,”<sup>29</sup> and many innocent taxpayers are now bearing the brunt of this fraud. As States must report unemployment insurance benefit amounts to the IRS and the recipients on a Form 1099-G, Certain Government Payments, many individuals received Forms 1099-G in January reporting unemployment insurance benefits they had neither claimed nor received. Even though these individuals generally were victims of fraud perpetrated by identity thieves who were able to falsely claim and receive benefits in their names, they will now have to persuade their State unemployment divisions to issue corrected Forms 1099-G.

If they do not, the IRS is likely to send them notices seeking tax and interest (and potentially penalties) on the purportedly unreported amounts. Starting in late summer, fall, or early winter, taxpayers will begin to receive IRS notices proposing tax adjustments based on inconsistencies between Forms 1099-G and their filed returns. My office is continuing to work with the IRS and recommending that it delay the issuance of notices to provide taxpayers and the States with additional time to correct inaccurate Forms 1099-G.

—*Impact of mistaken enforcement actions.*—In general, the IRS has substantially scaled back its enforcement activities during the pandemic. Initially, it announced its “People First Initiative” under which it provided almost complete relief from enforcement actions during the early part of the pandemic. While examination and collection activity has resumed since that time, the IRS is continuing to show forbearance in several areas. Due to the mail processing backlog, for example, it has temporarily waived any requirements to secure 2019 tax returns to qualify for an installment agreement, an offer in compromise, or currently-not-collectible-hardship status.<sup>30</sup> However, the IRS has sent taxpayers collection and other notices with response dates that have passed. In addition, although the IRS granted relief by offering filing extensions, programming errors caused it to incorrectly assess and collect the failure-to-pay penalty in some cases.<sup>31</sup>

These are just a sampling of the additional challenges taxpayers have faced during this unprecedented filing season. I do not believe there are quick fixes this year. But there are steps the IRS can take over the next few years that will improve the taxpayer experience, protect taxpayer rights, and provide more cushioning if a disaster of this nature strikes in the future.

## II. RECOMMENDATIONS TO IMPROVE THE TAXPAYER EXPERIENCE

We have recommended several steps Congress and the IRS can take to improve the taxpayer experience and enhance tax administration. Key recommendations are as follows:

### A. *Provide sufficient funding for the IRS to meet taxpayers’ needs*

There has been considerable discussion in recent months about increasing IRS funding over a sustained period to help close the tax gap. While the goal of requiring taxpayers to pay their fair share is laudable, I want to emphasize that more funding is also needed to improve taxpayer service and ensure the protection of taxpayer rights.

In fiscal year 2020, the IRS received 100.5 million telephone calls. Its employees answered only 24 percent of those calls, with hold times averaging 18 minutes.<sup>32</sup> In fiscal year 2019, before the pandemic struck, the results were similar. The IRS received 99.4 million calls and employees answered 29 percent.<sup>33</sup>

<sup>28</sup> Erin M. Collins, 2021 Filing Season Bumps in the Road: Part II, NATIONAL TAXPAYER ADVOCATE BLOG (Apr. 27, 2021), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-2021-filing-season-bumps-in-the-road-part-ii>.

<sup>29</sup> Office of Inspector General, Department of Labor, *DOL–OIG Oversight of the Unemployment Insurance Program* (updated Mar. 31, 2021).

<sup>30</sup> See IRM 5.19.1.4.4.1(4) (Mar. 19, 2021) (granting an exception to secure an installment agreement without a 2019 tax return through June 30, 2021); IRM 5.16.1.2.9(12) (Apr. 13, 2021) (granting authorization to place accounts into CNC status even with one or more unfiled tax returns).

<sup>31</sup> See IRC § 6651(a)(2).

<sup>32</sup> IRS, JOC Snapshot Reports: Enterprise Total (fiscal year ending Sept. 30, 2020).

<sup>33</sup> IRS, JOC Snapshot Reports: Enterprise Total (fiscal year ending Sept. 30, 2019).

The President's Management Agenda emphasizes the importance of high-quality customer service as measured by the American Customer Satisfaction Index (ACSI) and the Forrester U.S. Federal Customer Experience Index.<sup>TM34</sup> By these measures, the IRS performs poorly. The ACSI report for 2019 ranked the Treasury Department 11th out of 12 Federal departments and said that "[m]ost IRS programs score . . . in line with the overall rating for the Treasury Department."<sup>35</sup> The 2019 Forrester report ranked the IRS 13th out of 15 Federal agencies and characterized the IRS's score as "very poor"<sup>36</sup>—and that was before the pandemic.

To underscore its concerns about taxpayer service, Congress enacted the Taxpayer First Act (TFA) in 2019 but did not provide additional funding to implement changes.<sup>37</sup> The TFA directed the IRS to develop comprehensive multiyear plans to improve taxpayer services and modernize its information technology (IT) systems.<sup>38</sup> The IRS submitted its TFA plans in January 2021.<sup>39</sup> These plans will require significant additional funding to implement. In the National Taxpayer Advocate 2021 Purple Book, I made the following specific recommendations:

- Provide multiyear sustained funding for the IRS to finalize implementation of its Integrated Modernization Business Plan so it can replace its 1960s IT systems, create an integrated case management system, and offer robust online accounts for taxpayers and practitioners.<sup>40</sup>
- Provide sufficient funding for the IRS to implement the TFA, which will change how the IRS engages with taxpayers and increase digital interactions.<sup>41</sup>
- Replace the IRS budget structure with a new structure that better reflects how the IRS operates and gives the IRS more flexibility to move funds among its accounts so it can pay for the full costs associated with its programs and initiatives (*e.g.*, the overhead and downstream taxpayer service costs associated with compliance initiatives).
- If Congress retains the current budget structure, ensure the IRS receives balanced funding by considering the interactive effects of changing the funding level for one IRS account on other IRS accounts, including the downstream increase in telephone calls and TAS cases likely to result from increased enforcement funding.<sup>42</sup>

The recent increase in customer service representatives will begin to help later this year, but I also urge Congress to provide additional funding for the IRS to continue to increase staffing on its toll-free telephone lines. Ideally, I would like to see the IRS answer every taxpayer's call. One hundred percent of calls answered in a timely fashion is a worthy goal and one to which taxpayers are entitled. Given that call volumes wax and wane, I understand that funding the IRS to answer every call would mean that customer service representatives would sometimes be underutilized. For that reason, my recommendation is that the IRS be staffed to answer at least 85 percent of taxpayer calls. As discussed below, customer callback technology could be utilized to ensure the needs of all taxpayers are met, even during peak call periods.

<sup>34</sup> Office of Management and Budget, *President's Management Agenda* 7, 28 (2018), [https://www.performance.gov/PMA/Presidents\\_Management\\_Agenda.pdf](https://www.performance.gov/PMA/Presidents_Management_Agenda.pdf).

<sup>35</sup> American Customer Satisfaction Index, *ACSI Federal Government Report 2019*, at 4 (2020).

<sup>36</sup> Forrester Research, Inc., *The US Federal Customer Experience Index, 2019*, at 15–16 (June 11, 2019).

<sup>37</sup> Public Law No. 116–25, 133 Stat. 981 (2019).

<sup>38</sup> *Id.* at §§ 1101 & 2101(a), 133 Stat. at 985, 1008.

<sup>39</sup> IRS Pub. 5426, Taxpayer First Act Report to Congress (Jan. 2021), <https://www.irs.gov/pub/irs-pdf/p5426.pdf>.

<sup>40</sup> The IRS's IT challenges are discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. See Most Serious Problem: *Information Technology Modernization: Antiquated Technology Jeopardizes Current and Future Tax Administration, Impairing Both Taxpayer Service and Enforcement Efforts*; Most Serious Problem: *Online Records Access: Lack of Electronic Access to Taxpayer Records Through an Online Account Makes Problem Resolution Difficult for Taxpayers and Results in Inefficient Tax Administration*; Most Serious Problem: *Refund Delays: Taxpayers Whose Legitimate Returns Are Flagged by IRS Fraud Filters Experience Excessive Delays and Frustration in Receiving Their Refunds*.

<sup>41</sup> The IRS's funding needs to implement the TFA are discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. See Most Serious Problem: *Digital Communications: Limited Digital Communications With the IRS Make Problem Resolution Unnecessarily Difficult for Taxpayers*.

<sup>42</sup> The importance of balanced funding among the IRS's budget accounts is discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. See Most Serious Problem: *Information Technology Modernization: Antiquated Technology Jeopardizes Current and Future Tax Administration, Impairing Both Taxpayer Service and Enforcement Efforts*.



*B. Prioritize the development of accessible, robust, and functional online taxpayer accounts*

The IRS offers an online account option for individual taxpayers, but its usefulness is limited in two respects. First, most taxpayers who try to establish online accounts cannot do so because they cannot pass the e-authentication requirements.<sup>43</sup> Second, the functionality of the accounts is very limited.

For the majority of taxpayers who have been doing their banking online for two decades or more, the contrast between their online bank accounts and an online IRS account is stark. Most bank customers can pay their bills online, deposit checks online, and withdraw cash from the nearest ATM. They rarely need to speak with a bank representative. Because online accounts substantially reduce call volumes, customers who require personal service typically experience short hold times.

Taxpayers who manage to establish online accounts on IRS.gov can view only limited information. They cannot view most relevant account information, including correspondence and account status, and they cannot conduct numerous transactions online. With the existing online account, for example, taxpayers cannot view images of the tax returns they have filed or information returns filed by third parties; view most notices (including the statutory notice of deficiency, the collection due process notice, and the notice of claim disallowance); update their contact information; file documents; submit an offer in compromise; access employee contact information for open examination, collection, or Appeals cases; view the status of compliance actions; or utilize secure messaging to communicate with an IRS employee. This functionality should not be considered a luxury for taxpayers; rather, these should be standard services the IRS provides for all taxpayers.

Of the IRS's many technology needs, the development of robust, secure online accounts should be at the top of the list. This tool would be a game changer in how practitioners and taxpayers can communicate and work with the IRS. My version of a robust online account would allow taxpayers the ability to view all relevant information and conduct transactions through their online accounts, with strong security using two-factor authentication or similar safeguards. This would be the single most significant step the IRS can take to improve the taxpayer experience for the vast majority of taxpayers. Another key benefit of a robust online account would be the ability to free up IRS employees to assist taxpayers who are not able or not comfortable utilizing online accounts. This portion of the taxpayer population would greatly benefit from having immediate access to IRS employees through phone service or in person at Taxpayer Assistance Centers (TACs). Over time, robust online accounts will produce cost savings for the IRS, as the demand for IRS telephone service will substantially decline.<sup>44</sup>

*C. Expand customer callback technology to all IRS toll-free telephone lines*

Many large businesses and Federal agencies with telephone call centers offer customers the option of receiving a callback when the wait time to speak with a customer service representative is long. The IRS offers this option on a few of its telephone lines, but the option is not yet offered on most lines, including the high-volume lines. Providing that option would reduce the time taxpayers spend waiting on hold and serve as a workload management tool for the IRS. When call volumes are low, telephone assistants can answer calls quickly. When call volumes are high, telephone assistants can call back taxpayers in the order in which their calls are received.<sup>45</sup>

*D. Reduce barriers to e-filing tax returns*

One of the biggest challenges the IRS has faced over the past year has been processing paper returns. Although more than 90 percent of individual taxpayers now e-file their returns, about 10 percent still mail them in on paper. Many of these taxpayers would prefer to file electronically but are prevented from doing so by IRS e-filing limitations. There are three principal limitations: (i) taxpayers sometimes

<sup>43</sup> IRS, Office of Privacy, Governmental Liaison and Disclosure response to TAS information request (Oct. 13, 2020) (stating that the authentication rate for IRS online applications requiring the highest level of assurance authentication, including online taxpayer accounts, was 42 percent in fiscal year 2020).

<sup>44</sup> For additional background, see National Taxpayer Advocate 2020 Annual Report to Congress 44–59 (Most Serious Problem: *Online Records Access: Limited Electronic Access to Taxpayer Records Through an Online Account Makes Problem Resolution Difficult for Taxpayers and Results in Inefficient Tax Administration*).

<sup>45</sup> For additional background, see National Taxpayer 2020 Annual Report to Congress 28–43 (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Face Significant Difficulty Reaching IRS Representatives Due to Outdated Information Technology and Insufficient Staffing*).

are required to submit statements or other substantiation with their returns, and these attachments generally cannot be e-filed; (ii) some tax forms used by limited numbers of taxpayers are not accepted electronically; and (iii) taxpayers sometimes need to override default entries when preparing their returns with tax software, and some of these overrides make returns ineligible for e-filing. The IRS should address these limitations to allow all taxpayers the option of e-filing their returns.<sup>46</sup>

*E. Utilize scanning technology for individual income tax returns prepared electronically but submitted on paper*

When taxpayers file returns on paper, IRS employees must manually transcribe the data line-by-line into IRS systems. Manually entering data from 17 million individual income tax returns is an enormous task, and transcription errors are common, particularly on longer returns. Transcription errors result in notices to taxpayers, taxpayer telephone calls, and taxpayer correspondence that must be reviewed and evaluated.

Technology is available that would allow the IRS to machine read paper returns and avoid the need for manual data entry. One option is 2-D barcoding. To utilize it, tax software companies would generate and imprint a horizontal or vertical barcode containing all the information on the return, and an IRS machine would read the barcode. (This is similar to the barcodes on items in supermarkets and other retail stores.) Many States have been using 2-D barcoding for paper-based income tax returns for more than a decade. A second option is optical character recognition software. This software has the advantage of reading handwritten returns as well as returns prepared with software, so it could eliminate the need to transcribe any individual income tax returns. With handwritten returns, however, sloppy handwriting could lead to errors.

We understand the IRS is exploring the implementation of one of these forms of scanning technology. I encourage the IRS to move quickly. Scanning technology will improve accuracy and reduce costs, and it should be relatively easy to implement.<sup>47</sup>

*F. Expand digital acceptance and transmission of documents and digital signatures*

The March 2020 closure of IRS offices and mail facilities made it impossible for IRS employees to receive paper documents from taxpayers. As a workaround, the IRS issued temporary guidance that authorizes employees to accept and transmit documents related to the determination or collection of a tax liability by email using an established secured messaging system.<sup>48</sup> Employees are also permitted to accept images of signatures (scanned or photographed) and digital signatures on documents related to the determination or collection of a tax liability. I strongly recommend the IRS make these temporary solutions permanent. In addition, the TFA requires the IRS to develop guidance to establish uniform standards and procedures for the acceptance of taxpayers' electronic signatures for powers of attorney (Form 2848) and tax information authorizations (Form 8821).<sup>49</sup> It is my understanding that the first version of this tool is anticipated to go live this summer, and I hope the IRS will stick to that schedule.

All of these changes are beneficial for taxpayers and practitioners and improve tax administration. I recommend that the IRS continue to move forward into the 21st century with additional digital taxpayer services.

<sup>46</sup>For additional background, see National Taxpayer 2020 Annual Report to Congress 75–83 (Most Serious Problem: *E-Filing and Digitalization Technology: Failure to Expand Digitalization Technology Leaves Millions of Taxpayers Without Access to Electronic Filing and Wastes IRS Resources*).

<sup>47</sup>For additional background, see National Taxpayer Advocate 2021 Purple Book 14 (Legislative Recommendation: *Require the IRS to Work with Tax Software Companies to Incorporate Scanning Technology for Individual Income Tax Returns Prepared Electronically But Filed on Paper*).

<sup>48</sup>See Memorandum from Sunita B. Lough, Deputy Commissioner, Services and Enforcement, for All Services and Enforcement Employees, Control Number: NHQ-01-1120-0004, (1) Approval to Accept Images of Signatures and Digital Signatures [and] (2) Approval to Receive Documents and Transmit Encrypted Documents by Email (Dec. 1, 2020), <https://www.irs.gov/pub/irs-utl/approval-to-accept-images-of-signatures-and-digital-signatures.pdf>; Memorandum from Sunita B. Lough, Deputy Commissioner, Services and Enforcement, for All Services and Enforcement Employees, Control Number: NHQ-01-0620-0002, (1) Approval to Accept Images of Signatures and Digital Signatures [and] (2) Approval to Receive Documents and Transmit Encrypted Documents by Email (June 12, 2020), <https://www.irs.gov/pub/foia/ig/spder/nhq-01-0620-0002.pdf>.

<sup>49</sup>Public Law No. 116–25, §2302, 133 Stat. 981, 1013 (2019). For additional background, see National Taxpayer 2020 Annual Report to Congress 75–83 (Most Serious Problem: *E-Filing and Digitalization Technology: Failure to Expand Digitalization Technology Leaves Millions of Taxpayers Without Access to Electronic Filing and Wastes IRS Resources*).

*G. Offer videoconferencing options to taxpayers*

Videoconference technology allows taxpayers and their authorized representatives to be both seen and heard and to share documents without being physically present. The IRS Independent Office of Appeals offers WebEx technology for virtual face-to-face conferences between taxpayers, representatives, and Appeals Officers. The IRS Office of Chief Counsel and the U.S. Tax Court are also conducting video communications and virtual trials using ZoomGov.com. Although videoconferencing should not replace in-person or telephone conference options, it adds a digital option to communicate with taxpayers when appropriate and may provide options for those with difficulty traveling or the inability to take extended time off from work.

I recommend that the IRS evaluate the feasibility of expanding use of these technologies to as many taxpayer-facing functions as possible, without removing the in-person options for taxpayers. Unfortunately, existing bandwidth has been too limited to handle extensive use of these technologies. It is only recently that the IRS has permitted limited internal videoconferencing during COVID-19 closures. Videoconferencing should continue to be expanded and offered as an option to taxpayers because it can help fill current or future voids in face-to-face service at TACs and in dealing with revenue agents or revenue officers.

In addition, taxpayers who are geographically remote from a TAC and taxpayers with mobility or transportation challenges may find videoconferencing technology more helpful and economical than traveling for an in-person conference. Even taxpayers who are not geographically remote may prefer the convenience of a virtual meeting. The IRS has utilized Virtual Service Delivery (VSD) in the past, but it should modernize its VSD capabilities to allow taxpayers to use neighborhood facilities such as local post offices, community centers, Volunteer Income Tax Assistance sites, and other partner locations to log onto secure IRS applications. It is my understanding that the IRS is exploring the feasibility of this option for remote locations. We encourage the agency to continue down this path.

### III. CONCLUSION

The 2021 filing season has presented unprecedented challenges for taxpayers and the IRS. The pandemic created some of these challenges and highlighted others. The challenges the IRS faced this year were heightened by its reliance on outdated technology and a workforce that has shrunk by more than 20 percent over the past decade.

Taxpayer service must improve, and our citizens deserve a responsive and respectful tax administration that serves all taxpayers fairly. Closing the tax gap should neither result in reduced taxpayer service nor undermine taxpayer rights. To the contrary, voluntary compliance should be rewarded and not become a victim of increased enforcement. Congress and the IRS should ensure that efforts to narrow the tax gap are consistent with taxpayers' fundamental rights and encourage a fair and just tax system.

I believe adversity creates opportunities, and the pandemic helped focus attention on areas where improvements are necessary and achievable. With congressional support and creativity, the IRS can capitalize on its "lessons learned" and improve its processes. I look forward to continuing to work with the IRS and Congress to help improve the taxpayer experience.

Senator VAN HOLLEN. Thank you, Ms. Collins. Commissioner Rossotti.

Senator HYDE-SMITH. Can you turn your mic up?

Senator VAN HOLLEN [continuing]. Rossotti, please—yes.

### STATEMENT OF THE HONORABLE CHARLES O. ROSSOTTI, FORMER COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. ROSSOTTI. Sorry.

[Laughter.]

Mr. ROSSOTTI. Sorry. So, thank you for inviting me about the tax gap. So, we estimate that the amount of taxes that were legally due but not paid in 2019 was actually about \$574 billion, and that would actually accumulate to \$750 trillion over the next 10 years if nothing more is done. And by comparison, that amount is equal to all of the taxes paid by the lower-earning 90 percent of taxpayers, about 135 million people. And Commissioner Rettig, of

course, just testified that the number might even be higher than that.

So, we do estimate that it is practical to recover \$1.4 trillion over 10 years, but that would still only be 19 percent of the tax gap over that period, and in our estimate, all of that gain would be from the top 25 percent of taxpayers. So, tax compliance is very heavily driven by whether income is reported by third parties in a form that the IRS can efficiently use it. Where income is reported on documents such as W-2s and 1099s, compliance is 95 to 99 percent, and almost all that tax is paid voluntarily, without the IRS having to audit or do anything. But where income is not reported at all, compliance is as low as 50 percent.

So, our proposed plan for shrinking this gap is based on a three-part program. First, move more of the income that's now low visibility into a higher-visibility category by filling some gaps in information that is not currently reported. Secondly, it is necessary to upgrade IRS technology in order to make use of this information, including information the IRS already has, as well as to improve the efficiency of all our IRS service and compliance activities. And third, it will be necessary to rebuild the IRS's skilled workforce and to provide them the tools to resolve taxpayer cases more rapidly and efficiently. And I want to stress that it is critical to use technology to make the entire service and compliance process more efficient, because just scaling up what the IRS does today will not accomplish the desired results, either for service or compliance.

For example, currently, all the auditing that the IRS does only recovers about two and a half percent of the tax gap. For example, the IRS cannot efficiently evaluate information on 40 million K-1 returns, on 1099-K returns reported by payers, and on foreign financial institutions that report under FATCA. It can't do that automatically, but modern technology would make it possible to use that information to precisely identify deficiencies.

Technology would also allow the IRS to transform the follow-up process when deficiencies are identified, to make it far more accurate and efficient for both taxpayers and the IRS, more efficient than traditional auditing. And this kind of technology is not futuristic. It's widely used today, including, on a limited scale in the IRS, for example, in screening refunds. As noted by the Taxpayer Advocate, most of the gain from taxes and from our plan as well is from voluntary compliance, increased voluntary compliance. So, it is essential to make it easy for taxpayers to comply when they want to, and the investments that we propose would increase the ease and speed of dealing with the IRS and also avoid unnecessary audits.

We also recommend that, if Congress grants the IRS additional authority, it should follow what is a bipartisan practice of establishing pertinent and specific taxpayer rights that would be relevant to the plan. And we have proposed several in our program. I would note that our program would require both authorization and consistent long-term funding from Congress, and we recommend not a sudden increase but a steady increase of 6 percent per year, over and above what is required for general operations, because spreading this over 10 years is what will make it possible for the IRS to use this funding efficiently. But we think that, over

a decade, this kind of an investment could gain revenue equal to about 20 times its cost and also vastly increase the quality of service to taxpayers, which has been a subject today.

I do have to acknowledge that this program, to implement, would be very challenging, but I've been running programs in business and government for 50 years, and I believe that it is achievable. But equally important, the gains would clearly outbalance the risk that involved. And as Congress did when it passed a law called the IRS Restructuring and Reform Act, it could set very clear compliance and service goals that could be established and monitored by Congressional committees, year by year.

Finally, I just want to note that our proposals are for a long-term investment. In the short term, as we heard today, the IRS has to focus its immediate priorities on the filing season and economic recovery programs.

And I would just close by noting that I believe that, apart from money, that fundamental fairness alone is a compelling reason to address the tax gap problem, especially when Congress might be considering increasing taxes on people who are already paying what they owe. Thank you, Mr. Chairman. I'm glad to take questions.

[The statement follows:]

PREPARED STATEMENT OF CHARLES O. ROSSOTTI, IRS COMMISSIONER, 1997–2002  
INTERNAL REVENUE SERVICE: NARROWING THE TAX GAP AND IMPROVING TAXPAYER SERVICES

Mr. Chairman and Ranking Member, thanks for allowing me to testify on how to shrink the ever-growing tax gap.

We estimate that the amount of taxes that were legally owed but not paid was \$574 billion in 2019 and will accumulate to \$7.5 trillion over 10 years. This amount in 2019 was equal to what the lower 90 percent of individuals, 135 million taxpayers, paid in Federal income taxes. Commissioner Rettig recently testified the tax gap may be even larger than that.

We estimate that it is practical to recover \$1.4 trillion of this tax gap over 10 years, which is still only 19 percent of the total. All this gain would be from the top 25 percent of taxpayers and the majority from the top 3 percent.

Tax compliance is heavily driven by whether a taxpayer's income is reported by third parties in a manner that the information can be efficiently used by the IRS. Where income is reported and easily checked from forms such as W-2's and 1099's, compliance is 95 to 99 percent. Almost all the tax on that income is paid voluntarily without IRS intervention. Where income is not reported, compliance is as low as 50 percent.

Our plan for shrinking this tax gap is based on an integrated three-part program:

*First*, move more income from low visibility to higher visibility by filling the gaps on income that is not reported by third parties to the IRS.

*Second*, upgrade IRS technology to make full use of all the information available to the IRS to increase the effectiveness and efficiency of all IRS compliance activities.

*Third*, rebuild IRS's skilled workforce and provide them technology to resolve taxpayer cases more rapidly and efficiently.

It is critical to use technology to make the entire compliance process far more efficient because simply scaling up what the IRS does today will not produce the desired results. Currently, all of IRS auditing activity recovers only about 2.5 percent of the tax gap.

For example, the IRS today cannot efficiently evaluate information on 40 million K-1 forms, on the 1099-k reports from payers, or on submissions required by FATCA. Modern technology can effectively use this information to identify potential deficiencies.

Technology will also allow the IRS to transform the follow-up process when deficiencies are identified to one that is far more accurate and efficient for taxpayers and the IRS than traditional auditing.

The technology we propose is not futuristic. It is widely used today including on a limited scale in the IRS, for example in screening refunds.

Most of the gain in our plan comes from increased voluntary compliance so it is essential to make compliance as easy as possible. The investments we propose would increase the ease and speed of dealing with the IRS and reduce the number of unnecessary audits.

We also recommend that this committee follow its bipartisan practice of establishing pertinent taxpayer rights when it considers legislating authority for the IRS and our plan proposes several new or clarified taxpayer rights.

Our program requires both authorization and consistent long-term funding from Congress. We recommend a funding increase of about 6 percent per year above what is required to sustain IRS operations. Spreading this increase over 10 years is what will allow the IRS to make effective use of the funds Congress is providing.

Over a decade this investment will produce a revenue gain of about 20 times its cost and will vastly increase the quality of service the IRS provides to taxpayers.

Implementing this program will be challenging, but based on my 50 years of managing programs in business and government I believe it is achievable and clearly outweighs any risks. As Congress did when it passed the IRS Restructuring and Reform Act, compliance and service goals can be established, progress could be measured year-by-year and closely monitored by Congressional oversight committees.

I note that our proposals are for long term investment. In the short term, the IRS must focus on the immediate priorities of the filing season, the economic recovery program and the new child tax credit.

Finally, I believe that fundamental fairness alone is a compelling reason to address this problem, particularly when Congress is contemplating raising taxes on people who already pay what they owe.

Senator VAN HOLLEN. Thank you, both, for your testimony. I think we'll also stick to 8-minute rounds for this second panel. And, Mr. Rossotti, let me start with you. Thank you for going through the different elements of your plan. And you're proposing a 6 percent increase in the IRS budget, per year, over a 10-year period. Is that correct?

Mr. ROSSOTTI. Yes, but over and above—you'd need some just for inflation, just to keep the lights on, probably 2, 2.5 percent. So, if you add those two together, it would be about 8 to 8.5—

Senator VAN HOLLEN. Got it. I haven't done that math. How does that translate into real dollars, for example, in the first year?

Mr. ROSSOTTI. Well, if you said 8 percent that would be about—what would that be? About a billion, I believe.

Senator VAN HOLLEN. Got it. So, part of it is—and I think both your testimony and that of Ms. Collins indicates that this cannot be an either/or and that, in other words, we need to invest in service, and we need to invest in enforcement, and technology actually helps both improve. Mr. Rossotti, in addition to the dollar investment increase, you also mention the need to collect additional information at the IRS; in other words, to match incomes with reporting. And we have that with certain kinds of income. Can you be a little more specific about exactly what authorities—additional authorities would be required—

Mr. ROSSOTTI. Yes.

Senator VAN HOLLEN [continuing]. In that area?

Mr. ROSSOTTI. There is already a very extensive reporting machine, as you know. There's about 22 different kinds of 1099s. There's about 3.5 billion of those actually produced every year, so it's an everyday experience for every taxpayer to receive a 1099,

and it helps the taxpayer prepare an accurate return, and it helps the IRS to check it.

But there's certain gaps or holes if you will. It's like a bucket that has a lot of water in it, but it's got several holes. So, if you can fill those holes, which is what we propose, which is just one additional 1099 that would recover information, that report information on just money in and money out, on certain bank accounts, that would be an additional resource, together with the technology to put all this information together, because some of it—which, as I mentioned, that they already have but they can't use—you put that together, it would, first of all, help taxpayers, as it does today when they receive a 1099, to prepare an accurate return.

It would allow the IRS to more efficiently check on whether the return is accurate, and we believe it would also help to avoid unnecessary audits. One of the problems that really bothers taxpayers today is that even though there's less auditing, some of it is very unproductive. It's not because they want it to be unproductive but because they don't have the information, the tools, to select the correct return. So, there's about as much as 20 percent of individual audits, and sometimes as much as 40 percent of corporate audits, that really were unnecessary. They were what's called no-change audits. Better information will help to eliminate that problem and target the effort where it will do the most good.

Senator VAN HOLLEN. Got it. And as I understand your proposal—and think you said you would have the IRS, again, focus where most of the money in this tax gap is, in terms of people who owe but don't pay, and that's at the higher income levels, where—as—

Mr. ROSSOTTI. Well, but roughly speaking. I mean, there is non-compliance, of course, at all levels, but the largest dollar amounts are in the upper income. And we estimate that about 85 percent is in the top 25 percent of taxpayers, including related businesses that they own.

Senator VAN HOLLEN. Got it. Thank you. Ms. Collins, listening to your testimony and Mr. Rossotti's testimony, it does seem like this investment in technology can make a substantial improvement, potentially, in responsiveness to taxpayers' concerns. Can you talk specifically about what kinds of technology upgrades you think are important? I know you touched on some of them in your testimony.

Ms. COLLINS. Yes. I think, if you think about the pandemic, some of the challenges taxpayer had were not being able to speak with the IRS because their phones were just inundated with calls. So, how else do you reach out to the IRS? You would have to physically go to one of their buildings. Unfortunately, due to COVID, we do not have a lot of the buildings staffed and open up to the public. So, it's really a challenge for taxpayers.

Think about what we all do, every day. You send emails. You fax over a document. You upload a document. You receive documents. A lot of those, because of security reasons and others, the IRS has been unwilling to do. Due to COVID, they have made some temporary arrangements to allow some electronic transmission of documents, which has been huge. We have sort of, I would say, those who are fluent with respect or “comfortable,” maybe is a better

word, with electronics, either using a computer or their phone. So, for those individuals, having an online account where they could access their information, they can conduct a transaction, they could actually talk to—you know, think about, you call an airline or a hotel, you get Bob or, you know, this mythical person who actually sits there and would email you.

Things like that would really make an improvement for those who are comfortable, but we also have a percentage of our society that are not comfortable or not able to do that. So, I do believe if we could provide a very robust online account, the majority of tax professionals—and no disrespect to my colleagues—would probably prefer not to talk to the IRS, and it would be quicker just to go online and get the information. But for those percentage of the population who don't have that ability, we could free up those 15,000 customer service representatives to actually answer calls and help those people. So, technology, I think, would take the pressure off the IRS, for a large percentage of taxpayers, to resolve their issues and then free up their employees to do those who really need it.

Senator VAN HOLLEN. Well, that makes sense. And you indicated that they may have done this on a pilot basis, right? You know, in terms of—

Ms. COLLINS. Well, they've allowed some of their agents and others to do electronic messaging and other types of pilots that we've done, so to open up those communications. It was originally issued as temporary guidance because of COVID, and we have been pushing the IRS to consider making it permanent, as well as other additions to increase the digital communication.

Senator VAN HOLLEN. So, if one of my constituents today wanted to contact an IRS agent online, like through email, is that something—how would they do it?

Ms. COLLINS. Right now, no. However, if they had an open case and they had an agent assigned to them, they might be able to work with that agent and do, through secure messaging and other types of things, a program where they could contact it, but there are hoops that the person has to jump through. So, if, again, my hypothetical Bob just wanted to pick up, you know, an email and talk to the IRS, that's not going to happen today.

I would like to see that as part of the online account, that they could contact an IRS agent and get that information, whether it be 10 o'clock at night or 10 during the day because I do think, again, the overwhelming majority, especially the youth—they would much prefer to go online than actually pick up a phone. So, I do see, as future generations—as an organization, we really need to change how we do business.

Senator VAN HOLLEN. Well, that makes a lot of sense. I mean, obviously, we have to deal with the cybersecurity and confidentiality piece, but do you have a rough estimate of how much that would reduce the phone call volume by? I don't know if you've had a chance—

Ms. COLLINS. I don't think we've ever—

Senator VAN HOLLEN [continuing]. To look at that.

Ms. COLLINS [continuing]. Done a statistic, but I—

Senator VAN HOLLEN. Yes.



Ms. COLLINS [continuing]. Do think, if you think about where we were as an organization 10 years ago, filing electronic returns, to where we are today, I don't think people would've thought we would get as far. I'm not sure the actual number. I know it's far in excess of 90 percent of the returns that have been filed have been filed electronically. I think, Commissioner Rossotti, you would be shocked to know that, during your tenure, it would've been 90 percent. So, I do think, as time is changing, we are seeing people going more towards digital than actually, unfortunately, human interaction.

Senator VAN HOLLEN. All right. Thank you. Senator Hyde-Smith.

Senator HYDE-SMITH. Thank you. My question is for both witnesses, something that we've covered a little bit. In recent years, there have been rapid advancements in technology and increasingly complex tax avoidance strategies, some of which are legal and some which are not legal. Are IRS employees properly equipped to handle all of the intricately complex cases, or should the IRS evaluate where training of existing employees is sufficient or when it is necessary to recruit outside tax experts to bring new perspectives and skill sets to the agencies to address this?

Ms. COLLINS. Who would like to go first?

[Laughter.]

Mr. ROSSOTTI. Okay. Thank you, Senator Smith. I think that you are absolutely correct. I think the IRS, as Commissioner Rettig actually just mentioned, with several different approaches, both hiring, you know, the workforce of the future, well-trained people out of college, early in their career, but also mid-career and sometimes senior people—and I had a little bit of authority to do that when I was Commissioner, and, you know, you might be surprised—maybe you wouldn't be surprised—to find that there are actually very, very capable people who would come in, even at a substantially reduced income, for a few years, maybe three to 5 years, to work at the IRS, to do those sorts of things, if they had the proper support and the proper funding.

So, I do believe that you are exactly on target with your question, and I believe that should be part of a long-term program. The kind of program we said—I said, "Rebuild a skilled workforce." I didn't go into detail, but it's very much along the lines of what Commissioner Rettig said about his three different tiers of employees.

Ms. COLLINS. And I would agree with that. So, a year ago, I joined as the NTA. Prior to that, I was 20 years on the outside. So, similar to Commissioner Rettig, I represented individuals all the way to very large corporations. And again, no disrespect, but it's the experience. If you don't work in that arena, it's very difficult to be trained. Partnerships is an area that a lot of people are very confused with the law, and partnerships, in my opinion, is an area that you probably have a lot of abuses. So, it is very difficult for the IRS to be able to work efficiently when you have 10, 15, 20 very high-priced, very well-informed, trained folks sitting on the other side of the table.

So, the IRS does have a heavy lift, technically, to get up to speed, especially ever-changing—cryptocurrency, a lot of other things that are new, that agents have not had to historically deal with. So, one of the things, through the Taxpayer First Act, the IRS is really re-

visiting, and we're actually working with them on, is really the training program. Where do we have to go? For two reasons. One, we're focusing specifically on service and what we could do better for taxpayers, but, two, also, technology. How do we use technology, data mining, data analytics, and help agents get the information they need, and then how do we train these folks, or how do we bring people, entice them from the outside to come in to help work with our teams and train them so that our future leaders and our future employees are up to speed on technical issues?

Senator HYDE-SMITH. Very interesting. And, Ms. Collins, I just want you to describe some of the challenges that the IRS faces in its hiring process and what reforms the IRS could institute to quickly hire staff. I think you've got an opinion on that, and I'd like to hear it.

Ms. COLLINS. Well, I like how you use the word "quickly," because that's probably one of our bigger concerns. The IRS hiring process is a little slow, and as a result, I think we lose good talent, because if the process takes three to 6 months before we make a commitment and make you an offer, you probably have had four or five offers somewhere else, and "Thank you very much, IRS. Have a nice day."

So, that is a real challenge. How do we get our folks—we have a division called Human Capital Resources Office, which basically is the equivalent of our HR group, that do most of the hiring. The advertising of the positions, we have a struggle, because as part of our agreement with the union, a lot of our positions we have to advertise from internal, which means—and I'll use TAS as an example. We may have a position at a mid-level leadership that we fill from within. So, we advertise, we interview, we get the position filled, but it's from within. We advertise that position. Somebody from within applies. So, great, we're promoting someone's career. You go all the way down; we've hired six people but only one new person. And that's what happens. And I could now have 12 months go by before I got that one new person.

And as an organization, the IRS is seeing that. A lot of people move from within the organization, and they should have that opportunity to develop and build their careers, but I would like to see that there's some flexibility with the union, especially if we're going to be able to hire larger amounts of individuals, that we somehow work out that position so that we could advertise externally and internally and move the process along. So, it's really got to speed up the timeframe to make the offers, to do the interviews, and get people on board, because right now it's taking anywhere from three to 6 months, on average, to get folks in the door, which is just unacceptable.

And in this environment, we're seeing—very difficult to have people want to come work here, not in the sense of—I mean, IRS, I believe, is a great place to work. I came back after my 30-some-odd years. I'm one of the old-timers that the Commissioner referred to. But, you know, it is a great place to work. It's just right now we're not seeing, across the board—and private industry is seeing the same thing—applicants rushing in. So, we're going to be competing with outside industry. We need to be nimble, and we need to be—hire quickly, to get, you know, good people through the door.

Senator HYDE-SMITH. Thank you for that. And I've got a little bit of time left. Mr. Rossotti, we've heard calls from various interest groups to double the funding for a number of the FSGG agencies, including the IRS. And although the Budget Control Act spending caps will not be in place in the fiscal year 2022, we still face fiscal constraints as we make resource allocation decisions, of course, but why do you propose a 6 percent increase for the IRS as a more reasonable trajectory for the agency?

Mr. ROSSOTTI. Well, I think that the situation that has been described by you and others about lack of service, as well as the gigantic tax gap, it's just too big a problem to fix in 1 year or even 2 years. It simply has been accumulated over the period—when you kind of talk about technology—and I think Ms. Collins did a great job of describing what could be done on the service side, and there's so much more that could be done with information on the compliance side—but it just takes time.

I'll answer your question about technology. I spent most of my time in the private sector, and I've been involved with several large banks. The four largest banks in this country each spend on technology, each, about four times what the IRS has for technology, and they only have about 20 percent as many customers, if you want to call a taxpayer a customer. So, that's, like, a 20-to-1 ratio, and they've been doing that for years. There's no way to make up that kind of a—you know, immediately. If you tried to, you really fail, and you would be back here asking questions of why the IRS isn't. But it is, as Ms. Collins said, able to do things on incremental steps.

So, if you had an assured funding at a reasonable level, which I say is 6 percent per year, you know, as my estimate, over a period of 10 years, you would make enormous progress. If you tried to give them a huge amount for 2 years and then say, "Okay, now tell me what happened," frankly, it wouldn't work. So, if you really want to rebuild this to improve the service and compliance, it has to be done steadily, it has to be done carefully. And I believe the Congress—I've even submitted a proposal in my written testimony of how you could measure their progress, year by year; measure it on both the service and the compliance, so that you could see if they were actually accomplishing what they do. But if you said, "Send it to me and then come back in 2 years," I'm sorry, it just wouldn't work.

Senator HYDE-SMITH. Thank you. I'm out of time.

Senator VAN HOLLEN. Thank you. I think we'll do one more round of 5 minutes each, and other Members of the committee can join in if they arrive, but, Mr. Rossotti, just so I understand your conclusion as to what the taxpayer and the country would gain from the 6 percent-a-year budget, I think you said it would yield a return of 19 times that investment over a 10-year period. Is that what you said?

Mr. ROSSOTTI. That is my estimate, you know, in approximately that range. And let me just say, it does—these numbers are sufficiently strong that I don't have to be precise. I mean, obviously, it's an estimate, but let's say I was wrong. And I did do an estimate of—so, if I was wrong, and it took another 5 years, it would still come out to 11 times, because there's just an enormous amount of

money that is not being collected that should be, and it's not fair to the people who are paying.

On the service side, it's the same thing. I totally agree with all the comments that have been made here about the vastly poor effect of having—on compliance, if you have service—I mean, what I hear from people, when I talk—people still call me up, because I'm a former Commissioner, not that I can do anything about it. But they say, "You know what? I got this letter from the IRS. I couldn't even figure out what it said, but I was trying to get through to somebody. I finally got through to somebody, and they—you know, they didn't have the information to even answer my question." And it just goes on and on.

That is terrible for the taxpayer. It's terrible for the IRS, but it's not because the IRS employees are incompetent, or they don't want to do the job. If they don't have the information at their fingertips or, you know, there's not enough of them to even answer the phone, then, you know, you have that problem for people who are honestly complying. So, it is not a single problem for a single year. It is a process of rebuilding, and I—you know, I don't want to tick off my three elements again, but that's what I believe is really required.

Senator VAN HOLLEN. No, I appreciate that, and I—there's clearly a direct link between service and being able to get someone on the phone or online and compliance. That's one category of lack of compliance: people who want to comply but just can't get the answer and information. The other category, of course, are people who are deliberately ducking their responsibilities——

Mr. ROSSOTTI. Sure.

Senator VAN HOLLEN [continuing]. Which—as you mentioned. And, you know, Ranking Member Hyde-Smith raised a really legitimate issue in her questions with respect to the Commissioner about past investments in technology——

Mr. ROSSOTTI. Yes.

Senator VAN HOLLEN [continuing]. Not always yielding the——

Mr. ROSSOTTI. Yes.

Senator VAN HOLLEN [continuing]. Results that have been promised. I understand that you've put forward a particular proposal with respect to technology. You do think—can assure us the gains that we——

Mr. ROSSOTTI. Well——

Senator VAN HOLLEN [continuing]. Could make?

Mr. ROSSOTTI. You know, I mean, assurance—I believe that—what I would say is that the gains far outweigh the risks. If you go through any major change program, and this is true in a private business, you are going to have some setbacks. I'm not going to say that you won't. But let me just point out that the IRS has made significant progress with the funds that it has been given.

When I was Commissioner, we were always on the GAO high-risk list for technology. You know, they put out a list of the ten most risky agencies. We were right up there, and I was Commissioner. They're off that list. They're not on that list anymore. The GAO has written reports about some technology programs the IRS has done that have produced 15-to-1 returns, for example, on certain kinds of identity theft and so forth.

So, they have made significant progress, but I think that, you know, Senator Hyde-Smith, you asked the question about the Commissioner. I can't comment about how he transferred funds, but I can say this—that if I was running a factory to build cars and you gave me money to build more cars, you know, more labor and more—but the electricity went off because there was a flood in the basement or the floor caved in, I wouldn't be able to produce more cars. I mean, that is almost the situation that the IRS can be in because you can't do compliance and you can't do enforcement unless you have information and if you have an information system that is not functioning, it doesn't do any good. So, it is really the two, together, that makes the difference. It's really impossible to segregate them. They absolutely have to go together.

Senator VAN HOLLEN. Ms. Collins, I have one last question for you regarding IRS enforcement. And as we've heard, over the past decade, IRS enforcement diminished due to a lack of funding. Audit rates fell, especially sharply for higher-income—

Ms. COLLINS. Right.

Senator VAN HOLLEN [continuing]. Individuals making more than \$1 million a year, whereas, in contrast, IRS audits of working-class people receiving the EITC fell at a much lower rate. Did you look into this, and can you explain why enforcement, while it went down a little bit on both, went down a lot more on higher-income individuals, where I think the evidence is clear that there's a bigger tax gap?

Ms. COLLINS. Right. I think part of the challenge for low-income folks is it's a lot easier to automate an examination for someone who's either potentially a W-2 or an Earned Income Tax Credit return. A lot of that's automated. You don't need the same human resources; you don't need the same level of skill set to go through their return. It's probably four or five pages, versus two, three, four inches. So, it takes a different level of IRS employees.

And if you look at the allocation of—in the enforcement side of large business and international, it's—I forget the actual number, but it's far less than 10 percent of the total IRS employees, where if you look at the individuals who focus on return processing smaller individuals, it's probably substantially half. So, they do have the resources, and they are focusing on that.

Senator VAN HOLLEN. Thank you. Senator Hyde-Smith, any—

Senator HYDE-SMITH. Ms. Collins, we've heard a lot today about COVID-19 as the reason for so many things happening, and then as Senator Boozman, who stated he'd been on this committee for several years, that a lot of these problems have been going on for several years. Which challenges to the filing seasons are unique to COVID-19 pandemic, in your opinion, and which are recurring problems the IRS will continue to face? Can you separate that out?

Ms. COLLINS. I can try, but can I just real quick follow up on your last question about hiring? One thing I do want to point out—that the IRS has a new group or project that we're calling IRS Next, which is our future employees. We are working really hard to try and resolve the issue so that when and if a budget is approved that we can hire additional folks. We are trying to come up with solutions so that we can get people in the door quicker. So, although it is a current problem, we have potential solutions on the

table to try and fix that. So, that is the goal that hopefully, come October, we can start focusing on.

So—and back to your question, part of the challenges, especially on the returns that have been unprocessed, suspended, backlogged—you know, we use the different terms interchangeably—the paper returns was a challenge. As the Commissioner indicated, the service was shut down, so literally, if you filed your paper return, it sat in a trailer for potentially months or longer, and then by the time it got to an office to be processed, literally the pile was quite high. By the end of December, I think there was approximately 7 million Form 1040s that still needed manually processed.

So, with a paper return—and back to electronics—you need a human to sit down, take the return, and go line by line and enter it into the system. That's very time-consuming, versus if it's electronic or it can be scanned, I mean, literally, that's seconds, versus how many minutes does it take for a human? And then also susceptible to problems, because someone could type an error, transpose a number. So, paper returns are much more difficult for IRS individuals, for processing, so it's very time-consuming.

So, if you are one of those 7 million people, you're probably not overjoyed to hear that we're finally down to 300,000-plus. I'm a little more optimistic than the Commissioner. If they're down to 300,000 now, I think it'll be less than 60 days, based on the numbers that we're seeing, but again, if you're one of those 300,000, that's nothing to cheer about, because most likely your return's been sitting there for over a year. So, paper returns is a real problem for the IRS, and COVID made it even worse.

The other challenge was, on one hand, thank you to Congress, by changing the law to allow the application of what we call the look-back rule to use your income from '19 versus '20 to determine the benefits of your credits, because it would potentially increase the credits. IRS was not able to change its systems fast enough, so again, those required manual processing. So, that's a large percentage of those cases sitting in suspense. They need a human to go into the systems and verify the 2019 return.

The other challenge that, again, is COVID related, was the—what we refer to—the EIP payments, the Economic Impact Payments or the stimulus payments. You have to compare that to what is on line 30 of the 1040, which is a rebate credit. If there's any discrepancy on those, again, it gets pulled out, and you need a human to go ahead and process that.

So, a lot of the cases sitting in suspense that are being worked are the result of change of law. They had challenges because, again, thank you, Congress, they reduced the unemployment income taxability by the 10,200. Again, that took a lot of resources off for the IRS to quickly go ahead and fix those. So, a lot of the challenges they're facing is indirectly the result of COVID, because it's legislation, but on top of it—this filing season's much better than last, because people are able to work remotely on electronic filing documents, but again, paper, paper correspondence, someone has to physically be in the building and work through—as the Commissioner said, sometimes it's a million a week—and that's a lot of correspondence to go through.

Senator HYDE-SMITH. Thank you very much.

Senator VAN HOLLEN. Thank you, Senator. Ms. Collins, thank you for being a terrific advocate on behalf of the taxpayers in the country, and Mr. Rossotti, thank you for sharing your expertise as a former commissioner. I think we've learned a lot from both of you on this panel, and we look forward to getting to work to try to implement the recommendations that you've both made. And thank you to the Ranking Member for your questions, and we've got a lot of work ahead of us.

#### ADDITIONAL COMMITTEE QUESTIONS

The hearing record will be kept open for 7 days if Members want to submit questions for the record. This hearing is now adjourned.

Senator HYDE-SMITH. Thank you.

Senator VAN HOLLEN. Thank you.

Ms. COLLINS. And please feel free to reach out, to the extent you all have questions or would like to get additional information.

[The following questions were not asked at the hearing, but were submitted to the Internal Revenue Service for response subsequent to the hearing:]

#### QUESTIONS SUBMITTED TO HON. CHARLES P. RETTIG, COMMISSIONER

##### QUESTIONS SUBMITTED BY SENATOR CHRIS VAN HOLLEN

*Question 1.* You have said that one issue contributing to the tax gap is abuse of conservation easements. This is an important program that the vast majority of participating landowners use honestly to protect land for future generations, but can you elaborate on how certain developers and promoters have abused this?

*IRS Response.* Internal Revenue Code (IRC) § 170(h) provides for a charitable contribution deduction so long as the easement donor meets all of the statutory and regulatory requirements. The value of the easement is determined based on a qualified appraisal as defined in Treas. Reg. § 1.170A-13(c)(3) for contributions made on or prior to July 30, 2018, and Treas. Reg. § 1.170A-16 for contributions made after July 30, 2018. To claim a deduction, there must be a reduction in the property value due to the granting of the conservation easement. If there is no loss in value, no deduction is allowed. Many landowners correctly apply the law and use conservation easements as legally intended. However, not all conservation easements qualify for a charitable contribution deduction. In some instances, the taxpayers fail to satisfy the statutory and regulatory requirements. In others, the legal requirements are satisfied yet the value of the contribution is not properly determined.

The IRS issued Notice 2017-10, designating specific syndicated conservation easement transactions as listed transactions and requiring disclosure statements by both investors and material advisors. In syndicated conservation easements, promoters take a provision of tax law for conservation easements and twist it. These abusive arrangements are designed to generate inflated and unwarranted tax deductions, often by using inflated appraisals of undeveloped land and partnerships devoid of a legitimate business purpose. These transactions are then sold to investors as a tax savings strategy. Typically, taxpayers are allocated a charitable contribution deduction that significantly exceeds their original investment. Taxpayers save on taxes, and the promoter, appraisers, and other professionals promoting the transaction receive large fees. The government must invest significant resources to try to collect the correct taxes due. As previously reported, from 2016-2018 there are almost 800 cases claiming over \$22 billion in conservation easements that the IRS is actively examining. The IRS continues to vigorously litigate these cases. Criminal Investigations is pursuing criminal fraud, and the Department of Justice has injunctions against and plea agreements from some promoters.

On August 25, 2020, the Senate Finance committee issued its report on their investigation into Syndicated Conservation Easement Transactions. The investigation found:

The transactions involve land valuations that appear so inflated above their original purchase prices that they cannot reasonably be characterized as anything other than abusive tax shelters. Despite the formal documentation

developed by the promoters and nominal votes by investors, documents obtained in this investigation clearly show that both the promoters and the taxpayer-investors in these deals understood them simply as tax shelters. At their core, they are transactions in which taxpayers can save two dollars in taxes for every one dollar they give to transaction promoters—with promoters pocketing millions of dollars in fees for organizing the deals.

Unfortunately, despite considerable enforcement activity, taxpayers and promoters continue to engage in these transactions. The IRS is committed to addressing this non-compliance and stopping abuse of the conservation easement provisions.

*Question 2.* Does the use of virtual currency, which may allow anonymity in transactions, lead to the possibility of some avoiding tax reporting obligations? What has the IRS done in recent years to address problems that may arise due to the increased use of virtual currencies?

*IRS Response.* Virtual/Cryptocurrency does provide different levels of anonymity in transactions. Typical transactions involving a blockchain provide access to publicly available data and certain levels of tracing. Other obfuscation methods are being instituted throughout the ecosystem of virtual/cryptocurrency to provide more anonymous activities.

There are compliance risks inherent in digital asset use. The IRS works to mitigate these risks and promote voluntary compliance by:

- Promoting awareness of compliance issues associated with digital assets;
- Issuing guidance;
- Adding a question about virtual currency to Form 1040;
- Sending letters to taxpayers identified through third-party sources;
- Acquiring technological enforcement tools;
- Utilizing data analytics;
- Enhancing existing compliance strategies;
- Working with our law enforcement partners, both domestic and international, to address common reporting standards, deconfliction and elevated capabilities to identify and combat criminal activities; and
- Working with academia and the private sector to enhance internal capabilities and look toward technical solutions to tracing transactions.

*Question 3.* Congress provided funds in the recently enacted American Rescue Plan for IRS system upgrades—almost \$1 billion. Have you developed a plan on how you plan to use those funds? If so, can you share that plan with the subcommittee?

*IRS Response.* We appreciate the additional funding Congress provided through the American Rescue Plan to support IRS's Integrated Modernization Business Plan (Modernization Plan) and related information technology (IT) modernization efforts. With the Modernization Plan funding, we will continue to make meaningful improvements in taxpayer service and compliance, while transforming foundational IRS technology to allow future innovation and quicker delivery of IT capabilities.

Attached are the American Rescue Plan spend plan tables. We are committed to documenting our continued progress through the quarterly Omnibus reporting to Congress and to our oversight partners at the U.S. Government Accountability Office and the Treasury Inspector General for Tax Administration (TIGTA).

We've developed an approach for this funding that accelerates existing Modernization Plan initiatives, begins initiatives from phase 2 of the plan, and introduces new initiatives based on emerging needs and technologies. As shown in the attached preliminary spend plan (Table 4), IRS will invest in themes described in the Modernization Plan, including:

- Security.*—Accelerate expansion and integration of Secure Access Digital Identity (SADI)—IRS's new NIST-compliant authentication solution—across all taxpayer facing applications, as well as accelerate existing cybersecurity programs including identity and access management, vulnerability and threat management, and security operations and management.
- Taxpayer/Customer Experience.*—Continue the development of foundational digital platforms and capabilities aligned with the IRS Taxpayer First Act Taxpayer Experience Strategy, such as expanding online accounts for individuals and tax professionals, improving live assistance, and expanding multi-lingual access to information.
- Infrastructure.*—Establish off-premises capabilities and efficiencies in the cloud to house modern applications.
- Data.*—Build new data platforms and capabilities for analytics across service, enforcement, and operations support efforts, including the use of Customer Ac-



count Data Engine 2 (CADE2) data to move toward near real-time access to modernized individual account data.

—*Legacy Systems Modernization.*—Begin execution of the Individual Master File (IMF) modernization strategy and accelerate IRS technology footprint reduction through retirement, consolidation, and refactoring of legacy applications.

*Question 4.* The law requires publicly traded corporations to disclose “Uncertain Tax Benefits” in their filings with the Securities and Exchange Commission, which are tax breaks that authorities are more likely than not to disallow. However, for years now, we have seen corporations keep billions of dollars from these tax breaks, not because they were investigated and found to be legitimate, but because the statute of limitations runs out before the tax authorities reached any conclusion. According to recent analysis by Institute for Taxation and Economic Policy, in 2020 alone, ExxonMobil, General Electric, Verizon, Apple and 10 other corporations reported that they would keep \$1.3 billion in previously claimed tax breaks for this reason.

*Question 4a.* Corporations also report Uncertain Tax Positions to the IRS. What processes does the IRS use to scrutinize Uncertain Tax Benefits disclosed to the SEC, and Uncertain Tax Positions reported to the IRS?

*IRS Response.* The Institute for Taxation and Economic Policy analysis referred to above does not give the complete picture. Due to IRC § 6103, we can’t comment on specific taxpayers or their situations, but we can say generally that such findings don’t reflect whether or not the taxpayer had been examined. The IRS does not give taxpayers a finding that an issue is legitimate during an examination. Therefore, even if an examination is conducted, any release of tax reserves for book purposes will cite the expiration of the statute as the reason and not that the IRS found the issue to be legitimate. Furthermore, the Unrecognized Tax Benefits reported in the SEC Form 10-K filings represents a global reserve balance that does not necessarily relate entirely to U.S. Federal Income tax. The unrecognized tax benefits could also relate to foreign or State income tax positions that do not affect the U.S. Income Tax filing.

Taxpayers report uncertain tax positions to the IRS on Schedule UTP. The Schedule UTP is a tool used in conjunction with other risk analysis factors to identify the highest compliance risks among our taxpayer base and to assist in working issues effectively and efficiently. As part of that risk analysis, examiners review disclosures, external information like SEC filings, and other similar information to identify large, unusual or questionable items. TIGTA reviewed the Schedule UTP in 2018 and recommended that IRS consider modifications that would improve the information reported on the Schedule UTP. The IRS agreed with this recommendation and continues to evaluate potential improvements to the Schedule UTP.

*Question 4b.* Would the IRS be able to investigate more of these Uncertain Tax Benefits with additional enforcement resources?

*IRS Response.* Additional enforcement resources would position the IRS to increase audits and compliance activities of large corporate taxpayers.

*Question 4c.* Why would the IRS allow the statute of limitations to run out on any claim for a corporate tax break when the corporation itself does not believe its claims can withstand legal scrutiny?

*IRS Response.* Without specific facts, this is difficult to answer. The IRS does not have sufficient resources to examine every corporation that has disclosed uncertain tax benefits or uncertain tax positions. And, as stated previously, these disclosures are not a guarantee of tax non-compliance. However, for large corporations, it is unlikely that the IRS allowed the statute to expire on an examination or did not protect the statute on future tax years the IRS plans to examine. IRS examiners conduct a thorough risk analysis to determine whether to examine a taxpayer and what issues to examine. There are many variables to consider in making these determinations, including resources and materiality. As part of the risk analysis process, they look at disclosures, external information, and other sources to establish an examination plan.

*Question 5.* On June 19, 2020, I joined Senator Cortez Masto and several of my colleagues to write you a letter that included 10 recommendations to ensure that survivors of domestic violence can access their Economic Impact Payments.

Please identify any recommendations included in the letter that the IRS has implemented.

For any recommendations that the IRS has not implemented, please explain the reason why it was not implemented.

As the IRS implements the monthly payments for the expanded Child Tax Credit that were included in the American Rescue Plan, what steps is the IRS taking to ensure that survivors of domestic violence are able to access these payments?

*IRS Response.* The legislation authorizing the IRS to issue Economic Impact Payments (EIP) requires the payments to be based on a tax return. When a return is filed and joint payment is issued, we cannot legally determine who receives their rightful portion or benefit from the payment and it becomes a civil matter. None of the legislation authorizing the IRS to issue EIP authorizes the IRS to issue duplicate payments, even in the event an individual reports they are a victim of domestic violence. We continue to perform extensive outreach and an education campaign to help people understand the EIP and ensure awareness of the payments in vulnerable and underserved communities. We also have information available on IRS.gov regarding innocent spouse, filing a superseding return, and filing a claim if your payment is lost or stolen. When we did not have banking information on file for the second and third EIPs, we used banking information available from other Federal benefit accounts to deliver payments as quickly as possible. We also have a dedicated toll-free telephone line to provide assistance regarding questions and or misdirected payments.

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QUESTIONS SUBMITTED TO ERIN M. COLLINS, NATIONAL TAXPAYER ADVOCATE

QUESTIONS SUBMITTED BY SENATOR CHRIS VAN HOLLEN

*Question 1.* The IRS has stated that a correspondence audit, which is often how the IRS audits working class taxpayers claiming the EITC, costs approximately \$150 for the IRS. In your testimony, you cite IRS statistics showing that taxpayers with incomes below \$50,000 fail to respond to proposed adjustments in correspondence audits 45 percent of the time. How can the IRS make this process work better for taxpayers, so they are able to answer the questions asked of them by the IRS?

*Response.* Low-income taxpayers who receive the EITC must navigate complex eligibility requirements. The notices they receive from the IRS obfuscate these requirements. Some taxpayers do not know how to respond to the notices and therefore don't respond. As a result, some give up refundable credits to which they are entitled. For the National Taxpayer Advocate's 2021 Annual Report to Congress, we will be analyzing this issue, and we expect to provide details and recommendations to improve the level of response.

My office has recommended that Congress simplify the EITC eligibility requirements with the twin goals of (i) increasing the number of taxpayers eligible for the EITC who claim and receive their benefits and (ii) reducing the improper payments rate. For a detailed set of proposals, see National Taxpayer Advocate fiscal year 2020 Objectives Report to Congress, vol. 3 (*Special Report: Earned Income Tax Credit: Making the EITC Work for Taxpayers and the Government*), [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20\\_Volume3.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20_Volume3.pdf).

Short of Congress' restructuring the EITC and related family credits, I believe the IRS should take three steps to ease the burden on the taxpayers it examines.

*First*, the IRS should create notices that are easier for taxpayers to understand and set forth clearly the issue it is examining (e.g., relationship or residency or income). For each issue, the IRS should explain why it is questioning the item on the return. It should include a questionnaire on which the taxpayer could itemize the list of documents he or she is providing to support the claim, along with an IRS-provided envelope the taxpayer may use to mail back a response. With each such notice, the IRS also should include a paper version of its online "EITC Assistant," as many taxpayers do not have access to the Internet and therefore cannot avail themselves of online tools. With more informative notices designed to elicit a response from the taxpayer, more audited taxpayers will be able to respond and provide the necessary information to support their claims.

*Second*, low-income taxpayers who are audited generally qualify for free assistance from a Low Income Taxpayer Clinic (LITC). To its credit, the IRS includes a list of clinics with its audit notices, but the information about LITCs could be given more prominence. For example, the notices could include two black-bordered boxes, one containing LITC information and the other containing TAS contact information.

*Third*, if a taxpayer responds to an examination notice, whether in writing, by phone, or by visiting a TAC, the IRS should assign one employee to be the point of contact and to work the case. For field or office examinations, the IRS routinely

assigns an auditor to each case so the taxpayer can interact directly with that individual concerning the exam. For correspondence examinations, the IRS does not provide audited taxpayers with the name or direct contact information of an employee with whom to work. Rather, the taxpayer must call a toll-free number and likely will speak to a different employee every time he or she calls.

We understand the IRS initially does not assign cases in correspondence examinations in order to achieve processing efficiencies, but if a taxpayer responds to a notice to dispute it, we have recommended that the IRS provide the taxpayer with the “name, telephone number, and unique identifying number of an IRS employee who can serve as their direct contact throughout the correspondence audit process, along with the employee’s secure email address or the [Taxpayer Digital Communications] Secure Messaging access needed to send and receive documents and communicate electronically with the assigned examiner.” See National Taxpayer Advocate 2020 Annual Report to Congress 102, 118 (Most Serious Problem: *Taxpayers Encounter Unnecessary Delays and Difficulties Reaching an Accountable and Knowledgeable Contact for Correspondence Audits*), [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20\\_MSP\\_07\\_Correspondence.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_07_Correspondence.pdf).

Assigning an employee to work with a taxpayer once the taxpayer responds to an examination notice would assist the IRS by ensuring it receives the information it needs to resolve the examination. More importantly, it would assist the taxpayer with preparing and submitting the information needed to resolve the exam expeditiously and efficiently. It would also educate the taxpayer as to the refundable credits’ requirements. (We note that approximately one-third of each filing season’s EITC claimants are new). This process would ensure the IRS records the correct address for the taxpayer, which is particularly important because lower income individuals change homes more frequently than affluent taxpayers. In our three-part EITC section of the 2015 Annual Report to Congress, we noted that low-income taxpayers relocate at a rate of 20 percent per year, as compared to 12 percent of the population at large.

*Question 2.* The IRS offers an online account option, but I understand its usefulness is limited. Why is it that we cannot communicate with the IRS as we do with our banks, and do you have recommendations for improvement?

*Response.* The IRS offers an online account option for individual taxpayers, but as your question correctly states, its usefulness is limited in two respects. First, most taxpayers who try to establish online accounts cannot do so because they cannot pass the e-authentication requirements.<sup>1</sup> Second, the functionality of the accounts is very limited. For the majority of taxpayers who have been doing their banking online for two decades or more, the contrast between their online bank accounts and an online IRS account is stark. Most bank customers can pay their bills online, deposit checks online, and withdraw cash from the nearest ATM. They rarely need to speak with a bank representative.

As I stated in my testimony and in my 2020 annual report, I believe the IRS should prioritize the development of robust online accounts so that taxpayers and their authorized representatives have the option of interacting online with the IRS for all common transactions, just as customers routinely interact with their financial institutions through online accounts. During the 2021 filing season, the IRS received 167 million telephone calls. Only 9 percent of taxpayers reached a customer service representative—and only after lengthy hold times. This low level of service must not be repeated. An online account would allow taxpayers and the IRS to exchange information at their convenience, reducing their need to telephone the IRS and freeing up telephone assistants for taxpayers who have complex issues or do not have the ability or desire to communicate electronically.

My understanding is that there are two reasons the IRS has not already made robust online accounts available—data security concerns and lack of funding to create the accounts and add key functionality. For obvious reasons, the IRS must ensure that taxpayer return information is protected and not subject to hacking. On a positive note, the IRS is implementing Secure Access Digital Identification (SADI) in conjunction with its Child Tax Credit Upload Portal and will be implementing it for other systems beginning in fiscal year 2022. SADI is anticipated to modernize the e-authentication platform and improve online access for all taxpayers.

The IRS’s technology challenges are well known, and it has not had the resources to make many critical systems upgrades or the ability to include key functionality

<sup>1</sup> IRS, Office of Privacy, Governmental Liaison and Disclosure response to TAS information request (Oct. 13, 2020) (stating that the authentication rate for IRS online applications requiring the highest level of assurance authentication, including online taxpayer accounts, was 42 percent in fiscal year 2020).

required for online accounts. However, banks and other financial institutions face similar data security challenges, and as noted above, most of them have been offering robust online accounts for more than two decades. The IRS received significant supplemental funding for its Business Systems Modernization account as part of the American Rescue Act, and the Administration's fiscal year 2022 budget proposal calls for an increase in base funding. It is my recommendation that the IRS use this funding to build better online accounts, increase functionality, and address data security challenges as quickly as possible.

The IRS must prioritize the development of accessible, robust, and functional online taxpayer and practitioner accounts. Currently, taxpayers who manage to establish online accounts on IRS.gov cannot view most relevant account information, including correspondence and account status, and they cannot conduct numerous transactions online. With the existing online account, for example, taxpayers cannot view images of the tax returns they have filed or information returns filed by third parties; view most notices (including the statutory notice of deficiency, the collection due process notice, and the notice of claim disallowance); update their contact information; file documents; submit an offer in compromise; access employee contact information for open examination, collection, or Appeals cases; view the status of compliance actions; or utilize secure messaging to communicate with an IRS employee. This functionality should not be considered a luxury for taxpayers; rather, these should be standard services the IRS provides for all taxpayers.

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QUESTIONS SUBMITTED TO HON. CHARLES P. RETTIG, COMMISSIONER

QUESTIONS SUBMITTED BY SENATOR PATRICK LEAHY

- (1). Throughout the pandemic, and before it, my office has consistently heard from Vermonters who struggle to get ahold of employees at the Internal Revenue Services (IRS) when they have questions about their taxes. The IRS has been plagued by significant wait times and deteriorating rate of response for assistance provided through the national toll-free line. In 2020, only one in four callers ultimately got through to an IRS employee with an average wait time of 27 minutes. At the same time, the IRS has been "closing" Taxpayer Assistance Centers (TACs) throughout the country and especially in rural areas such as towns in Vermont.

For taxpayers living in rural communities with limited access to the Internet, the TACs are often the only option to receive assistance or guidance from the IRS. However, the overall number of TACs have declined and the number of TACs currently staffed with only one employee has increased in recent years. To make matters worse, many of the TACs that are supposed to be open are essentially closed with the no plans to reopen. Vermont has four TAC sites, of which two are virtual service delivery (VSD) only. Of the four, currently only one site is open and scheduling appointments with taxpayers. For some of my constituents, that would be a five to 6 hour roundtrip for an appointment.

With Vermont's aging population and limited Internet access, many taxpayers still rely on paper forms. Reductions in the number of participating Tax Forms Outlet Program (TFOP) sites and in the number and type of forms provided through that program have also created barriers for taxpayers who would like to comply with the tax code.

While budget restraints have undoubtedly forced the IRS to make difficult choices in recent years, reductions to taxpayer services are disproportionately impacting rural communities and making it difficult for rural taxpayers to efficiently and accurately pay their annual taxes. With President Biden's emphasis on closing the tax gap, I am hopeful that the IRS will be investing more in taxpayer services that can help increase compliance with the tax code and errors that can cost the IRS money in foregone revenue and error resolution.

*Question 1.* How does the IRS plan to better serve and assist rural Americans, so that taxpayers in rural areas can correctly file their taxes?

*IRS Response.* We recognize the need to serve all taxpayers through multiple channels so they can obtain assistance in the most convenient manner available to them. Providing taxpayer service continues to be a top priority for us, whether at Taxpayer Assistance Centers (TACs), through free tax preparation at a Volunteer Income Tax Assistance (VITA) site, over the phone, or online.

We are committed to ensuring that we reach those taxpayers who are considered underserved and unserved. Over the past year, we have made significant progress in our outreach to the homeless, engaging directly with more than 7,300 private and

local government agencies to provide EIP information to more than 6.8 million individuals. We have also greatly expanded services to those with limited English proficiency, providing translation services to taxpayers on the phone and in our TACs in 350 languages, and establishing an aggressive translation program on IRS.gov.

A planned outreach program to taxpayers in rural communities was delayed due to the impacts of COVID-19; however, we will resume the program as soon as it is safe to deploy face-to-face services and targeted virtual services in communities our data has identified for a pilot program. This program will allow us to identify the types of expansion channels that will provide the services needed in those communities.

Taxpayers in rural areas can access our products locally through the Tax Forms Outlet Program supported by our partnership with various Post Offices and Libraries. These participating locations provide taxpayers the ability to pick up tax products in their local area. In addition, we provide taxpayers the ability to order the products they need by calling our toll-free line, 800-829-1040.

*Question 2.* What is the IRS' plan for reopening the TACs in rural areas that are currently closed, such as the center in Brattleboro, VT?

*IRS Response.* Unfortunately, the Brattleboro, VT TAC is closed because our Individual Taxpayer Advisory Specialist retired in 2020. We hired a replacement specialist, who then resigned in January 2021. Our current hiring plans for this office include recruiting two new employees. That recruitment process has started. Our TAC leadership team has developed an Optimal Staffing Plan, which includes expanding our smaller, one-person TACs to a minimum of two technical employees. We are hopeful that we can initiate this plan effective October 1, 2021. Doing so will reduce closures due to normal employee absences and due to normal attrition and retirements. Of the current 358 TACs, 20 are unstaffed, 85 are one-person locations and 94 are two-person locations.

Face-to-face service through the TACs is augmented by Virtual Service Delivery (VSD) in trusted partner locations. These locations in Vermont, like Montpelier and Rutland, provide service to taxpayers through a face-to-face computer video connection. We have been working with our partners at these sites to re-open that service to taxpayers. Unfortunately, the Montpelier VSD is in a State building that is closed to the public until September. The Rutland site is in a library that has not fully re-opened; they are waiting on funding to update their HVAC system. We will continue to work with the Rutland site to determine when it will be able to re-open.

The IRS has also recently completed a VSD pilot that allowed taxpayers to use their personal computers, tablets, and smart phones to connect to assistors to resolve their issues. We are completing the analysis of that pilot and hope to incorporate that capability in our Rural Outreach Strategy.

Currently, taxpayers in rural areas, who can't resolve an issue using online tools or the toll-free line, can call the dedicated TAC appointment line at 844-545-5640. More than half the time, the IRS assistor can resolve the issue immediately or offer a convenient self-service option. When the taxpayer needs face-to-face service, the assistor schedules an appointment at the closest available TAC, which for our Vermont taxpayers can also currently include locations in New Hampshire or Massachusetts. However, taxpayers can get many services more conveniently through the mail or online at IRS.gov.

We encourage taxpayers to view, download and print tax products from IRS.gov, where all finalized tax products are available. With the exception of Publication 17, taxpayers can order a paper copy of any current-year form, instruction, or publication from IRS.gov/OrderForms or by calling 800-829-FORM (3676). Generally, taxpayers receive products within 10 business days if the products are available.

Most taxpayers can resolve their inquiries by visiting IRS.gov or by calling our toll-free line, 800-829-1040, from the convenience of their home or office. Resources available on IRS.gov include:

- Forms and publications
- Interactive tax law tools
- Get Transcript by Mail
- Where's My Refund?
- Direct Pay
- Online Payment Agreement
- Understanding Your IRS Notice or Letter

Taxpayers without Internet access can call our toll-free automated response systems that provide recorded information on a variety of topics. We also created Publication 5136, IRS Services Guide, to help taxpayers and practitioners locate the services they need.

Taxpayers in rural areas can access our products locally through the Tax Forms Outlet Program supported by our partnership with various Post Offices and Libraries. These participating locations provide taxpayers the ability to pick up tax products in their local area. In addition, taxpayers can order the products they need by calling our toll-free line, 800-829-1040.

We also make additional services available to taxpayers through our community partners and IRS programs. VITA and Tax Counseling for the Elderly (TCE) sites throughout the State offer free assistance with return preparation. VITA sites help people who generally make \$59,000 or less and people with disabilities or limited-English ability. TCE offers free tax preparation for all taxpayers, particularly those who are 60 years of age or older. The TCE program specializes in questions about pensions and retirement-related issues unique to seniors.

During the traditional filing season, taxpayers can find VITA/TCE sites for their local area on IRS.gov. They may also check the IRS2Go mobile application. IRS2Go allows taxpayers to check their refund status, make a payment, find free tax preparation assistance, sign up for helpful tax tips, and more. IRS2Go is available in both English and Spanish.

*Question 3.* What level of funding does the agency believe is necessary for the IRS to able reopen TACs and expand tax assistance programs for rural Americans throughout the country?

*IRS Response.* The IRS and TACs need consistent funding levels to maintain current services and to expand services to the currently underserved and unserved communities. For example, the Optimal Staffing Plan outlined in question 2, above, costs approximately \$30 million over the current level for Field Assistance operations.

- (2). Amid the pandemic, my office regularly hears from constituents asking about the status of their refunds. One single mother has had to reschedule needed medical treatment for her disabled son. Another had to postpone a home purchase. Normally the Taxpayer Advocate is able to help ensure that hardship cases are expedited. According to a recent report by the Treasury Department, the IRS has a backlog of over 8 million individual returns and other transaction to process included within that backlog is over 3.5 million individual paper returns and almost 1.5 million amended returns. That is a 1,835-percent and 1,238-percent increase, respectively, compared to the end of 2019. As of April 7, the Taxpayer Advocate advised us that there were over 7 million returns in the IRS "error resolution unit". In this tax return "purgatory", the Taxpayer Advocate has no ability to "see" the return or direct the IRS to process hardship cases.

*Question 1.* The National Taxpayer Advocate issued a Taxpayer Advocate Directive to the IRS generally directing it to "complete its processing of all unprocessed prior year tax returns and correspondence by May 1, 2021, or by April 15, 2021, provide a detailed plan for completion of the backlog processing." Has the IRS responded to this directive? How long does the IRS expect it will take to clear the backlog?

*IRS Response.* We responded to the Taxpayer Advocate Directive (TAD) on March 1, 2021. In our response, we explained that we would not be able to complete the backlog by the dates indicated by TAS. The TAD contains planned actions that are underway for completing the backlog. As of June 2, 2021, the individual return backlog has been processed through the transcription function and the business return backlog has 811,000 returns remaining to be processed. We are closely monitoring inventories to ensure all work is processed in the order received. This sometimes requires trans-shipping work from center to center according to resource availability. It also requires strategically using overtime in all operations to help work through the backlog inventories.

*Question 2.* How many additional employees will be necessary to clear this backlog?

*IRS Response.* It is difficult to provide an estimate on the amount of time it will take to clear the backlog completely through all the pipeline functions. To address the backlog inventories, we will continue hiring an additional 1,400 employees at our processing centers throughout the summer months. We will also convert over 1,000 seasonal employees to a permanent work schedule, which will ensure more employees are available to work throughout the year.

*Question 3.* How does the IRS expect Americans to file their taxes on time when the agency cannot process people's tax returns in a timely manner?

*IRS Response.* The IRS workforce navigated preparation for the 2021 filing season (FS2021) while continuing to implement COVID-related relief measures and delivering an extended 2020 filing season. These circumstances challenged our ability to make the necessary annual changes for FS21. Nonetheless, due to the ongoing efforts of our employees, we delivered a successful filing season again this year.

FS2021 opened successfully on February 12. To give you an idea of how well our systems performed, the IRS received over that initial weekend a total of 55 million submissions. These submissions included individual Federal returns and other items such as state tax returns, amended returns and returns filed by businesses. At the peak that weekend, our IT systems enabled us to successfully receive 335 submissions per second.

The February 12 opening of the filing season was slightly later than in previous years. The delayed start gave us time to do additional programming and testing of our systems following the December 27 tax law changes that provided the second round of EIPs and other benefits. The additional programming and testing ensured that people would receive their needed tax refunds and any remaining stimulus tax credits they might be eligible for as quickly as possible.

After carefully considering all the options, the Department of the Treasury (Treasury) and the IRS determined a limited FS2021 deadline extension for individuals filing Form 1040 to May 17, 2021, was in the best interest of tax administration. On March 17, Treasury and the IRS announced that the deadline for individuals to file Form 1040 and pay their Federal income tax was extended from April 15, 2021 to May 17, 2021. IRS Notice 2021-21 provided details on the additional tax deadlines that were postponed until May 17.

We are now opening mail within normal timeframes and all error-free individual returns received prior to 2021 that do not require further review have been processed. We understand the importance of timely processing tax returns and issuing refunds. We continue to work the returns that need to be manually reviewed due to errors. We are rerouting tax returns and taxpayer correspondence from locations that are behind to locations where more staff is available, and we are taking other actions to minimize any delays.

Tax returns are opened and processed in the order received. As the return is processed, it may be delayed because of issues such as errors concerning the Recovery Rebate Credit, missing information, or suspected identity theft or fraud. If we can fix the issue without contacting the taxpayer, we will. If we need more information or need the taxpayer to verify that it was they who sent the tax return, we will write the taxpayer a letter. The resolution of these issues depends on how quickly and accurately the taxpayer responds, and the ability of trained IRS staff working under social distancing requirements to complete the processing of the return.

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#### QUESTIONS SUBMITTED BY SENATOR JOE MANCHIN, III

- (1). Earlier this year, you appeared before the Senate Finance Committee and explained how the U.S. Government is losing billions in unpaid taxes. While the tax code has grown more complex over the past decade, the agency's budget and staffing has not kept pace. Since 2010, the number of tax returns has grown by 9 percent, but IRS funding has been cut by 21 percent, the number of revenue agents, who can conduct audits, has fallen by 35 percent, and the audit rate has fallen by 45 percent. The most recent official IRS estimates said that every year from 2011 and 2013, the IRS failed to collect \$441 billion in tax money, but you have stated that it could possible exceed \$1 trillion per year. That is a shocking number. The administration has proposed to boost the IRS's budget by \$80 billion over the next decade to increase enforcement to acquire an additional \$300 billion in new revenue from 2022 through 2031.

*Question 1.* Are you supportive of the administration's plan to allocate \$80 billion to the IRS for enforcement and how do you plan on using that funding to increase enforcement?

*IRS Response.* Yes, the IRS contributed to the development of this proposal and fully supports it. With the American Families Plan Tax Compliance Agenda—approximately \$80 billion over 10 years—the administration proposed an ambitious program to foster a tax system where Americans pay the taxes they owe. The proposal has four transformational elements:

—Provide the IRS the resources it needs to address sophisticated tax evasion.

- Provide the IRS with more complete financial information and resources to intake and analyze the data.
- Overhaul outdated technology to help the IRS identify tax evasion and serve customers.
- Regulate paid tax preparers and increase penalties for those who commit or abet evasion.

The plan proposes ramping up IRS enforcement of the tax laws and the associated funding and staffing over a decade but the additional resources will go toward enforcement against those with the highest incomes and audit rates will not rise relative to recent years for those earning less than \$400,000 in actual income. Because the expansion in the IRS's budget is phased in over a 10-year horizon, each year the IRS's workforce should grow by no more than a manageable 15 percent. It also includes increased funding for technology which is phased over the 10-year period so IRS IT can modernize in an orderly and effective way. The combination of authority to regulate paid preparers, additional staff, additional financial information reporting, and technology to analyze it will allow the IRS to increase enforcement dramatically.

*Question 2.* How does the IRS plan to collect unpaid taxes on transactions using cryptocurrency?

*IRS Response.* The IRS has announced a campaign to address transactions related to cryptocurrency. The virtual currency campaign addresses noncompliance related to the use of virtual currency, including cryptocurrencies, through multiple treatment streams including outreach, soft letter contacts, and examinations. These compliance activities have begun and follow the general tax principles applicable to all transactions in property, as outlined in Notice 2014–21. The initial soft letter mailings have resulted in numerous amended returns. We will continue to implement appropriate compliance activity under this campaign to address potential cryptocurrency non-compliance.

The IRS can identify, collect, and liquidate virtual currency, as it would other assets. When applicable, the IRS considers all assets in determining specific plans of action to collect taxpayers' unpaid taxes.

We are working on multiple collaborative initiatives with the private sector, academia and others to identify tax signatures in blockchain data, ways to identify unreported income and look at sectors of the ecosystem that are facilitating this activity.

We will also continue to work with Treasury's Financial Action Task Force (FATF) and Organization for Economic Cooperation and Development (OECD) to highlight the challenges in this area and propose new reporting requirements to ensure proper compliance.

*Question 3.* Do you believe that most of the uncollected taxes are sitting in an international tax shelter?

*IRS Response.* We do not believe that most of the uncollected taxes are sitting in international tax shelters. The most recent estimate of the gross tax gap is \$441 billion. The gross tax gap is composed of three components: nonfiling, underreporting, and underpayment. The estimated gross tax gaps for these components are \$39 billion, \$352 billion, and \$50 billion respectively. The gross tax gap estimates are also segmented by type of tax. The estimated gross tax gap for individual income tax is \$314 billion; for corporate income tax, it is \$42 billion; for employment tax, it is \$81 billion; and for estate and excise tax combined, it is \$3 billion. The tax gap estimate is not segmented by issue (e.g., international tax shelters). If international noncompliance is identified in the examinations that are the foundation for each estimate, they are implicitly included in the estimate.

Outside of the tax gap methodology, recent research indicates that there could be as much as \$50 billion in underreported tax owed on income generated from offshore assets and from pass-through business activities like partnerships. These activities are difficult to detect and are likely under-represented in IRS official tax gap estimates.

*Question 4.* Besides funding, what authorities does the IRS need to improve the collection of taxes in the future?

*IRS Response.* Treasury recently released the Green-book, listing various legislative proposals aimed at improving tax administration. These proposals, if passed into law, will help to close the tax gap. The American Families Plan Tax Compliance Agenda also includes proposals to improve our ability to promote compliance. Research demonstrates that mandatory third-party information reporting dramatically



improves voluntary compliance. Additional reporting requirements related to digital assets would improve the Service's ability to collect taxes in the future.

An additional IRS authority that would benefit tax administration:

—*The authority to regulate return preparers:* IRS justification on the benefits of regulating return preparers is well documented. IRS-CI has historically spent approximately 25 percent of our investigative time working refund crimes, such as the Return Preparer Program, Questionable Refund Program, and Stolen Identity Refund Fraud schemes. IRS authority to regulate return preparers would enable us to more readily stop refund crimes before they occur and keep those issues in the realm of a civil regulatory issue. Post enactment, we would reduce the time currently expended on refund crimes matters significantly and divert those resources to high impact cases such as international and offshore tax evasion cases.

- (2). A 2016 flood in Richwood, West Virginia caused massive destruction and millions of losses. The flood destroyed 80 homes and businesses and damaged another 100 structures, including the middle and high schools and the wastewater treatment plant and sewer lines. Unfortunately, ninety-five residents had to be rescued from the nursing home, which closed, eliminating 136 jobs. Overall, losses totaled more than \$50 million. A review of the Richwood's flood spending plan illustrated that the mayor and other city officials were not paying the employment taxes for the city employees. According to the city, there was no money to pay the taxes because, years after the flood, the Federal Emergency Management Agency (FEMA) had not reimbursed the city for the cost incurred to hire people during the recovery. The Trust Fund Recovery Penalty and fines totaled approximately \$325,504 a few years ago. The nonpayment also led to criminal charges and IRS liens against the mayor and other city officials. Currently, the city of Richwood is striving to pay the amount owed and remove the IRS lien, but have ran into a few hurdles getting this issue resolved.

*Question 1.* How often does the IRS pursue municipal officials for unpaid employment taxes?

*IRS Response.* As a matter of Federal tax administration, employment tax is generally the liability of the employing entity rather than the individual officials of the entity. Under certain circumstances, individual liability may arise.

One such example is the Trust Fund Recovery Penalty (TFRP), authorized by IRC §6672. The TFRP represents the amount of the unpaid trust fund taxes. It may be assessed against any person required to collect, account for, and pay over taxes held in trust who willfully fails to perform any of these activities. As such, this penalty could apply to any individual who bears the responsibility and willfully fails to take the actions described above, not just municipal officials.

*Question 2.* Could you commit to working with my office and the City of Richwood to calculate the amount owed to remove the IRS lien?

*IRS Response.* The IRS is always willing to work with taxpayers and their duly authorized representatives to resolve tax liabilities. Taxpayers or their authorized representative can find out the amount required to fully pay any Notices of Federal Tax Lien that attach to their property or rights to property by contacting our Centralized Lien Operation at (800) 913-6050. If you need assistance with a particular case, please contact our Legislative Affairs—National Congressional Affairs office.

- (3). Last time that you appeared before this Committee, we were able to have a discussion regarding the modernizations of the IRS. Now, more than 2 years after the Integrated Modernization Business Plan was released, I am still appreciative of your commitment to putting the agency's information technology on a path toward modernization over the course of the next 6 years. There's no question that the efficient operation of the Internal Revenue Service is integral to the functioning of our government. However, I want to point out that the dynamics in rural areas like West Virginia need to be kept in mind as the modernization plan is rolled out. If the IRS begins to limit constituent access to paper forms to make their processing more efficient and switches to online services it may only be favorable to some. For the people who don't have broadband access or don't feel comfortable using the Internet this will result in a disservice. And unfortunately, this is the case for many West Virginians.

*Question 1.* Can you provide the committee with an update on the modernization plan? As a result of the COVID-19 pandemic, do the IRS intend to maintain a 6 year window for completion?

*IRS Response.* The IRS Integrated Modernization Business Plan (Mod Plan) was published in April 2019 and provided a 6-year view of IT modernization goals. Since then, we have adjusted and executed the Mod Plan, delivering significant modernized capabilities as described in the fiscal year 2019 and fiscal year 2020 Annual Key Insights Reports (AKIR). We delivered these reports to Congress on April 13, 2020, and March 31, 2021, respectively.

Although 2020 was a year of unprecedented challenges for the country, we are proud to have successfully implemented the CARES Act, managed an extended tax filing season, and delivered 100 percent of the planned modernization capabilities. Examples include expanding customer callback options for taxpayers to a total of five lines, saving taxpayers 486,000 hours of live hold time, and delivering a new platform that uses layers of artificial intelligence to detect potential fraud. We are committed to modernizing IRS IT in support of our mission to provide top-quality taxpayer service and to enforce the tax laws fairly. We continue to deliver required technological improvements that are comparable to leading financial institutions, while maintaining privacy and security and meeting new legislative mandates with unprecedented speed and accuracy.

The enactment of the American Rescue Plan Act of 2021 (American Rescue Plan) has enabled us to reimagine the modernization program and go beyond the parameters of the original Mod Plan published in April 2019. The funding received through the American Rescue Plan will aid the IRS in modernizing IT foundational capabilities and infrastructure through the acceleration of existing programs and the addition of new programs to the portfolio. IRS Omnibus quarterly reports will include updates on the entire modernization program, including those capabilities funded through the American Rescue Plan legislation, beginning in the first quarter of fiscal year 2022.

Our modernization efforts have been constrained by the lack of predictable and consistent funding. Through the first 3 years of the plan (fiscal year 2019–2021), we have received just over half (~55 percent) of the Business Systems Modernization funding envisioned in the initial plan. This has resulted in rescoping and rescheduling, even with our use of user fees and inter-appropriation transfers to support delivery. We have consistently delivered on our modernization efforts, though often more slowly than initially planned due to this rescoping and rescheduling. Additional multi-year funding included in the American Families Plan will allow us to address foundational modernization needs to bring our technology up to modern standards and deliver IT improvements to tax administration that meet the needs and expectations of taxpayers.

*Question 2.* What efforts have been made to this point to ensure rural areas are not being left behind during this transition?

*IRS Response.* We recognize the need to serve all taxpayers through multiple channels, so they can obtain assistance in the most convenient manner available to them. Providing taxpayers with free tax preparation at VITA sites continues to be a top priority for us. We are committed to ensuring we reach those taxpayers who are considered underserved and unserved. Recently, we engaged community organizations in a national symposium identifying resources available for anyone interested in partnering with the IRS to start a VITA program in rural areas.

Currently, taxpayers in rural areas who can't resolve an issue using online tools or the toll-free line can call the dedicated TAC appointment line at 844-545-5640. More than half the time, the IRS assister can resolve the issue immediately or offer a convenient self-service option. Taxpayers can get many services more conveniently through the mail or online at IRS.gov.

We encourage taxpayers to view, download and print tax products from IRS.gov, where all finalized tax products are available. With the exception of Publication 17, taxpayers can order a paper copy of any current-year forms, instructions and publications, they can order them (except Publication 17), from IRS.gov/orderforms or by calling 800-829-FORM (3676). Generally, taxpayers receive products within 10 business days if the products are available.

Most taxpayers can resolve their inquiries by visiting IRS.gov or by calling our toll-free line, 800-829-1040, from the convenience of their home or office. Resources available on IRS.gov include:

- Forms and publications
- Interactive tax law tools
- Get Transcript by Mail

- Where's My Refund?
- Direct Pay
- Online Payment Agreement
- Understanding Your IRS Notice or Letter

Taxpayers without Internet access can call our toll-free automated response systems that provide recorded information on a variety of topics. We also created Publication 5136, IRS Services Guide, to help taxpayers and practitioners locate the services they need.

Taxpayers in rural areas can access our products locally through the Tax Forms Outlet Program supported by our partnership with various Post Offices and Libraries. These participating locations provide taxpayers the ability to pick up tax products in their local area. In addition, taxpayers can order the products they need by calling our toll-free line, 800-829-1040.

We also make additional services available to taxpayers through our community partners and IRS programs. VITA/TCE sites throughout the State offer free assistance with return preparation. VITA sites help people who generally make \$59,000 or less and people with disabilities or limited English ability. TCE offers free tax preparation for all taxpayers, particularly those who are 60 years of age or older. The TCE program specializes in questions about pensions and retirement-related issues unique to seniors.

During the traditional filing season, taxpayers can find VITA/TCE sites for their local area on IRS.gov. They may also check the IRS2Go mobile application. IRS2Go allows taxpayers to check their refund status, make a payment, find free tax preparation assistance, sign up for helpful tax tips, and more. IRS2Go is available in both English and Spanish.

- (4). It is no secret that the talk of Congress right now is the possibility of an infrastructure package. However, in order for an infrastructure package to be passed, it goes without saying that we have to have a way to pay for it and pass some sort of tax reform. I believed, and still do, that real reform needs to meet a few goals: it needed to focus on permanent relief for working class families; make small businesses and corporations competitive in a global economy; be fiscally responsible; and simplify the tax code. As we continue to debate and discuss next steps on an infrastructure package, we need to keep these thoughts in mind. We cannot return to the strictly partisan methods that have been used by both parties to advance legislation with no input from our friends on the other side of the aisle. Reaching an agreement on a package can be done if we work together.

*Question 1.* In your mind, what areas of tax reform should Congress examine as we look for potential pay fors for an infrastructure package?

*Treasury Office of Tax Policy Response.* The administration has provided numerous revenue proposals in the American Jobs Plan. These proposals are described in more detail in <https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals> and generally focus on reforming corporate taxation, particularly in the international tax area. Treasury will continue to work with Congress on these reforms.

*Question 2.* Are there portions of the 2017 tax bill that are being discussed for reform that should be changed? Are there things that should be left untouched?

*Treasury Office of Tax Policy Response.* The American Jobs Plan proposal fixes the problems of both prior law and current law. The plan raises the corporate income tax rate from 21 percent to 28 percent. This is an administratively simple way to raise revenue and increase the progressivity of the tax system. Similarly, in the international tax area, the American Jobs Plan proposes eliminating the (QBAI) exemption in the GILTI minimum tax for the first 10 percent return on offshore tangible assets, and repealing FDII. These changes would eliminate offshoring incentives. A much stronger minimum tax (with country-by-country administration and a higher rate) will put an end to the profit shifting incentives that were present in current and prior law. Accompanying this change, the administration recommends reforms to the BEAT (as described in the SHIELD proposal) that will curtail foreign multinational company profit shifting.

- (5). In the past year, Congress has authorized numerous programs aimed at helping vulnerable Americans weather the new economic challenges presented by the pandemic. This included over \$850 billion of direct payments to taxpayers. While I commend you for steering the Federal Government's massive effort to deliver billions to impacted Americans, including 964,000 West Virginians, I re-

main concerned that the payments are not getting to those who need it the most. The American Rescue Plan contained several provisions directly aimed at helping parents: Larger stimulus payments of \$1,400 for each dependent, an increase in the child tax credit, and more money funneled through the tax credit to help parents offset work-related child-care expenses. Unfortunately, West Virginia has over 10,000 homeless youth. The COVID-19 pandemic, along with the opioid epidemic, has compounded this issue with high unemployment, unstable living conditions, and job insecurity, resulting in higher rates of homelessness in children, youth and families. As such, more and more grandparents are raising their grandchildren in West Virginia. That's why it is imperative that we ensure that money gets to the children or their real caretakers in these households.

*Question 1.* How should a grandparent or relative notify the IRS that they have become the primary caretaker of a child?

*IRS Response.* Advance Child Tax Credit (CTC) payments are based on the children claimed for the CTC on a 2020 tax return (or 2019 tax return, if the 2020 tax return has not been processed as of the payment determination date for monthly advance CTC payments). Later this year, we will update the Child Tax Credit Update Portal (CTC UP) to allow taxpayers who have already claimed a child to inform us about the qualifying children they will claim on their 2021 tax return. This information will allow us to adjust the estimated 2021 Child Tax Credit, including the amount of monthly advance CTC payments.

If a taxpayer does not receive advance CTC payments for a qualifying child now, they may claim the full amount of allowable CTC for that child when they file their 2021 tax return.

*Question 2.* What should a grandparent do if he/she is the primary caretaker of a child and that child's tax credit or EIP payment goes to their noncustodial parent or parents?

*IRS Response.* See the response to question 1, above, for information about how eligibility is determined and how a grandparent can claim a child.

If a taxpayer will not be eligible for the CTC for the 2021 tax year, they can unenroll through the CTC UP. CTC UP was available in June and allowed taxpayers to unenroll before the first advance CTC payment was made (and taxpayers can unenroll moving forward). The total amount of advance CTC payments that a taxpayer receives during 2021 is based on the IRS's estimate of their 2021 CTC. If the total amount received is greater than the actual CTC a taxpayer can claim on their 2021 tax return, they may have to repay the excess amount on their 2021 tax return during the 2022 tax filing season. For example, if they receive advance CTC payments for two qualifying children properly claimed on their 2020 tax return, but no longer have qualifying children in 2021, the advance CTC payments they received will be added to their 2021 income tax unless they qualify for repayment protection.

*Question 3.* What mechanisms or procedures can the IRS set up to ensure that future tax credits and/or benefits go to the child's actual caretaker?

*IRS Response.* As described above, advance CTC payments in 2021 are based on an estimate of the 2021 CTC. The payments are based on eligible children claimed on a 2020 tax return (or 2019 if the 2020 tax return hasn't been processed). If taxpayers will not be eligible for the CTC in 2021, they should consider unenrolling from the advance CTC payments. When taxpayers file their 2021 tax return during the 2022 tax filing season, they will need to compare:

1. The total amount of the advance CTC payments received during 2021; with
2. The amount of the CTC they can properly claim on their 2021 tax return.

*Excess Child Tax Credit Amount:* If the amount of CTC exceeds the total amount of advance CTC payments, the taxpayer can claim the remaining amount of CTC on their 2021 tax return.

*Excess Advance Child Tax Credit Payment Amount:* If they receive a total amount of advance CTC payments that exceeds the amount of CTC they can properly claim on their 2021 tax return, they may need to repay some or all of that excess payment to the IRS.

In January 2022, the IRS will send Letter 6419 to provide the total amount of advance CTC payments paid to the taxpayer during 2021. Taxpayers may need to refer to this letter when filing their 2021 tax return during the 2022 tax filing season.

## QUESTIONS SUBMITTED BY SENATOR JOHN KENNEDY

- (1). The fiscal year 2022 budget proposes to create a comprehensive financial account information reporting regime. As part of this proposal, banks and third-party payment providers would be required to report account holders' aggregate account outflows and inflows. Using banks as an extension of the IRS would be incredibly burdensome and costly to regional and smaller banks.

*Question 1.* Banks already submit CTRs for deposits and withdraws of more than \$10,000, with the option to report transactions below that threshold. Does the IRS feel that this is not sufficient reporting? Who is the IRS trying to target by receiving reports of transactions below \$10,000?

*Treasury Office of Tax Policy Response.* When the IRS is able to verify the accuracy of tax filing with third-party information reporting, compliance rates are more than 95 percent. For opaque sources of income, where no such reporting exists, compliance rates are under 50 percent. Strengthening third-party reporting is one of the most effective ways to improve tax compliance. The tax gap for business income (outside of large corporations) is driven primarily by the lack of comprehensive third-party information reporting and the resulting difficulty identifying noncompliance outside of an audit. The IRS selects returns for examination based on an assessment using information available on the potential for noncompliance. But when the IRS has no visibility into opaque income streams, it lacks the ability to focus enforcement activity effectively. Requiring comprehensive information reporting on the inflows and outflows of financial accounts will increase the visibility of gross receipts and deductible expenses to the IRS. The IRS will use this new information to better focus enforcement activities, detecting obvious areas of gross non-compliance and decreasing the likelihood that fully compliant taxpayers will be subject to audit. Under the enhanced information reporting, voluntary compliance will rise, as taxpayers realize that the IRS has an additional lens into previously underreported income streams.

*Question 2.* The IRS is proposing banks send them all financial account flows. Does the IRS have the ability to sort through this volume of transactions?

*Treasury Office of Tax Policy Response.* It will be imperative to provide the IRS the resources it needs to best deploy this information, as well as existing information it collects—as the administration's proposal does. For example, today the IRS cannot efficiently evaluate all of the information on submissions required by the Foreign Account Tax Compliance Act. With modernized IT and the additional funding proposed in the American Families Plan, the IRS will be able to intake and analyze financial information by applying artificial intelligence and other modern techniques.

*Question 3.* What safeguards is the IRS proposing to ensure information does not get in the hands of the wrong people?

*Treasury Office of Tax Policy Response.* The IRS is dedicated to protecting taxpayer privacy and safeguarding returns and return information from unauthorized access, use, or disclosure. Modernization funding would allow the IRS to support efforts to meet threats to the security of the tax system, including the 1.4 billion cyberattacks the IRS experiences annually.

- (2). The administration is proposing to increase the corporate tax rate in the U.S. from 21 percent to 28 percent. Typically, small businesses are organized as sole proprietorships, partnerships, LLCs, and S Corporations. These entities are taxed at the individual level and are not subject to the corporate tax rate. However, small businesses can also be C Corporations, which will be taxed at 28 percent if the proposal passes.

*Question.* Do you support raising taxes on small businesses? Please explain.

*Treasury Office of Tax Policy Response.* The administration has focused this year on providing direct assistance to small businesses and working families to help them deal with the challenges of the pandemic and building back from that. The American Rescue Plan provided significant economic relief in the form of loans for small businesses, expanded tax credits to help employers retain and safely bring back workers, and grants to millions of the hardest hit businesses. As you noted, most small businesses are organized as sole proprietorships, partnerships, LLCs, and S Corporations that are not taxed at the entity level. These businesses would not be affected by a higher corporate tax rate.

- (3). Practitioners are experiencing difficulty in reaching the IRS to help their clients in a timely manner. Taxpayer written correspondences in response to IRS notices is not processed before the next scheduled IRS correspondence is sent to the taxpayer escalating the penalty situation for the taxpayer that otherwise would have been handled with the first written correspondence.

*Question.* What is being done to address Taxpayer Rights regarding the backlog of unprocessed IRS mail that impacts them?

*IRS Response.* We are not aware of a backlog of remittances awaiting processing. We are opening mail within normal timeframes and all error-free individual returns received prior to 2021 that do not require further review have been processed. We understand the importance of timely processing tax returns and issuing refunds. We continue to work the returns that need to be manually reviewed due to errors. We are rerouting tax returns and taxpayer correspondence from locations that are behind to locations where more staff is available, and we are taking other actions to minimize any delays.

Tax returns are opened and processed in the order received. As the return is processed, it may be delayed because of issues such as errors concerning the Recovery Rebate Credit, missing information, or suspected identity theft or fraud. If we can fix the issue without contacting the taxpayer, we will. If we need more information or need the taxpayer to verify that it was they who sent the tax return, we will write the taxpayer a letter. The resolution of these issues depends on how quickly and accurately the taxpayer responds, and the ability of trained IRS staff working under social distancing requirements to complete the processing of the return.

- (4). The slowed down IRS processes for practitioners power of attorneys (POT) being posted has greatly impacted taxpayers receiving help. It takes approximately four weeks before the POT is in the Centralized Authorization File (CAF) system.

*Question.* The IRS has recently announced they are rolling out an online Tax Pro portal in July to mitigate the delays in processing POTs. A practitioner cannot respond on behalf of a taxpayer's letter that requires a response within four weeks of receipt while waiting for final processing. What steps do you recommend the practitioner take to best meet the needs of the taxpayer?

*IRS Response.* Practitioners do not have to wait for their power of attorney to be processed before being able to respond on behalf of the taxpayer. We accept a completed "unprocessed" paper or faxed copy of a third-party authorization as valid. We provide immediate assistance to the practitioner when the document submitted contains all the essential elements, including the following:

- Taxpayer's name and address;
- Taxpayer Identification Number;
- Representative's name and address;
- Type of tax;
- Form number and tax year or period;
- Representative designation, signature, and date; and
- Taxpayer's dated signature.

- (5). The zip codes for all 64 Louisiana parishes are supposed to be flagged in the IRS system for Severe Winter Storm tax relief but when practitioners call in to have relief granted for a taxpayer, they are sometimes told their zip code is not eligible for the relief.

*Question.* Please explain why this is occurring. What needs to be done to remedy this situation?

*IRS Response.* All parishes in Louisiana were granted relief following the disaster declaration FEMA-4590-DR, and all taxpayers residing in those parishes or having books and records within those parishes are eligible for relief. Taxpayers with an address of record with the IRS in the designated disaster area do not need to call or request disaster tax relief. The IRS provides disaster tax relief to qualifying taxpayers automatically. However, taxpayers or their preparers may need to self-identify that they are qualified for relief if they maintain records in a covered disaster area that are necessary to meet a tax deadline falling within the disaster period. We are happy to work with any taxpayer who needs assistance determining their eligibility for relief. In the event relief is being requested or was previously denied, practitioners can contact the IRS at 866-562-5227 or send bulk requests to:

Internal Revenue Service

Planning & Analysis Staff  
 4800 Buford Highway  
 Stop 96C  
 Chamblee, GA 30341

- (6). There are 2019 Amended returns that were mailed in that are still waiting to be processed. This is creating undue hardship on taxpayers receiving lien notices for taxes not owed.

*Question.* What is the current backlog of unopened mail from 2019? Why is the IRS issuing lien notices before addressing unopened mail?

*IRS Response.* We no longer have a backlog of unopened mail from 2019.

We are not aware of a backlog of remittances awaiting processing. We continue to balance the need to issue lien notices and other compliance correspondence with the possibility that we have not processed a payment or account adjustment. As always, taxpayers who believe that a notice they receive is incorrect should contact the IRS at the number on the notice.

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#### QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

##### 1. American Families Plan Farm Impact (Ag Committee):

- As you know, the recently proposed American Families Plan proposes significant tax changes with respect to capital gains tax rates, like-kind exchanges and stepped-up basis.
- In my home state of Arkansas, the economic impact of food and agriculture contributes to over 48,000 jobs, over \$91 billion in economic output and nearly \$9 billion in taxes.
- Administration officials, however, suggest that 98 percent of family farms in the U.S. would not be impacted by these proposed tax changes. *What is your perspective Commissioner on how these proposed tax changes will impact family farms and the farm economy?*

*Treasury Office of Tax Policy Response.* Family farms will not be affected by the proposal to tax unrecognized gain (and thus the increased capital gains tax rate) unless and until the farm ceases to be both family owned and operated.

- And can you share any analysis that the IRS has done that has led you to reach these conclusions?

*Treasury Office of Tax Policy Response.* We understand that, according to USDA data, only 2.4 percent of U.S. farms are farms where the proprietor and his or her relatives do not own a majority interest in the farm.

##### 2. IRS Backlog:

- I support a tax code and system that ensures hard-working Arkansans keep more money in their pocket, and part of that is ensuring that Arkansans receive the correct amount of their tax refund, and they receive it in a timely fashion.
- One problem I'm hearing a lot from Arkansans is that they aren't getting their tax refunds in a timely fashion. In fact, many constituents have told me that they've logged onto the IRS website and have read that the IRS states "we issue most refunds in less than 21 calendar days."
- Despite that "less than 21 calendar days" timeline, constituents tell me that it's taking much longer than that to get their refund, often times double the 21-day mark and, in some cases, up to 16 weeks. In fact, constituents have told me that they have called the IRS after the 21-day mark, and the IRS representatives have informed them that, given the impact of COVID-19 on IRS staffing, that 21-day timeline is unrealistic.
- As you may imagine, it is extremely confusing and upsetting to hard-working constituents to read one thing on the IRS website and hear another, especially as they're waiting on their important refund check.
- While the IRS website provides information regarding IRS refund processing during the COVID-19 pandemic, the IRS has not updated the website to factor in the clear delays that the IRS has in processing and distributing these refunds.
- This delay and lack of updated timelines has resulted in a backlog in refunds, and constituent confusion. *Why does the IRS website still provide pre-COVID*

*timeframes, notably “less than 21 calendar days” in most cases, when in fact it is often taking double that time to process and receive refunds?*

*IRS Response.* We regularly update information on IRS.gov to realistically reflect our processing timeframes. Please visit our Status of Operations page for additional information and ongoing updates here: <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>. As the return is processed, it may be delayed because of issues such as errors concerning the Recovery Rebate Credit, missing information, or suspected identity theft or fraud. If we can fix it without contacting the taxpayer, we will. If we need more information or need the taxpayer to verify that it was them who sent the tax return, we will write the taxpayer a letter. The resolution of these issues depends on how quickly and accurately the taxpayer responds, and the ability of trained IRS staff working under social distancing requirements to complete the processing of the return.

*—Can I count on you to take steps to both ensure that the IRS will update its timeframes in order to avoid confusion and provide transparency if it cannot meet the “less than 21 calendar days” timeframe, and that the IRS will work to process and distribute refunds in a timelier fashion so that Arkansans and Americans across the country can receive their refunds in a timely manner?*

*IRS Response.* We understand the importance of timely processing tax returns and issuing refunds. We have processed all error-free returns received prior to 2021 that do not require further review. We continue to work the returns that need to be manually reviewed due to errors. We are rerouting tax returns and taxpayer correspondence from locations that are behind to locations where more staff is available, and we are taking other actions to minimize any delays.

Tax returns are opened and processed in the order received. As the return is processed, it may be delayed because of issues such as errors concerning the Recovery Rebate Credit, missing information, or suspected identity theft or fraud. If we can fix the issue without contacting the taxpayer, we will. If we need more information or need the taxpayer to verify that it was them who sent the tax return, we will write the taxpayer a letter. The resolution of these issues depends on how quickly and accurately the taxpayer responds, and the ability of trained IRS staff working under social distancing requirements to complete the processing of the return.

As mentioned in our response above, we regularly update information on IRS.gov to realistically reflect our processing timeframes. Please visit our Status of Operations page for additional information and ongoing updates here: <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>.

#### SUBCOMMITTEE RECESS

[Whereupon, at 3:40 p.m., Wednesday, May 19, the subcommittee was recessed, to reconvene subject to the call of the Chair.]